



Performance and Annual Report

Fiscal Year 2004



U.S. Customs and
Border Protection

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This Performance and Annual Report covers Federal Fiscal Year (FY) 2004 (October 1, 2003 through September 30, 2004) with discussion of some subsequent events. It is prepared to meet the objectives of the Reports Consolidation Act of 2000. The purpose of the Act is to streamline and consolidate statutory financial management and performance reporting requirements into a single report.

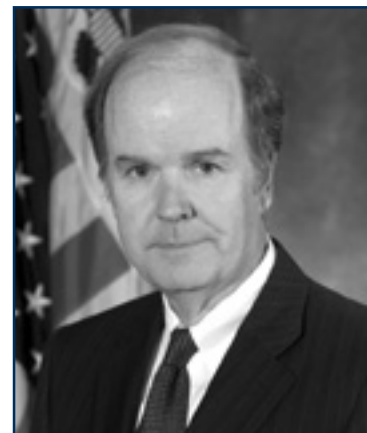
This report highlights U.S. Customs and Border Protection's (CBP's) major initiatives, performance goals, mission accomplishments, and presents related financial management information that represents an on-going effort to provide useful information to internal and external customers. The figures shown for FY 04 program operations and performance measures in the Management Discussion and Analysis Section of the report are those that were available as of October 31, 2004. CBP financial statements provide the financial position and results of CBP operations, pursuant to the requirements of 31 United States Code (U.S.C.).

While the statements have been prepared from CBP books and records in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are supplemental to the financial reports used to monitor and control budgetary resources prepared from the same books and records.

Information about CBP programs is available through the Internet on the CBP website at <http://www.cbp.gov>. The CBP website is updated on a daily basis.

Photos by Gerald Nino and James Tourtellotte

Message from the Commissioner



U.S. Customs and Border Protection's priority mission—keeping terrorists and terrorist weapons from getting into the United States—places CBP on the frontline of the war on terrorism. As the nation's unified border agency with broad, border-related legal authorities, CBP is strategically positioned to prevent further terrorist attacks on our nation. As the nation's border agency whose personnel is stationed at and between our nation's ports of entry, CBP is responsible for managing, securing and controlling our border. This includes carrying out our traditional border-related responsibilities, such as stemming the tide of illegal drugs and illegal aliens, securing and facilitating legitimate global trade and travel, and protecting our food supply and agriculture industry from pests and disease.

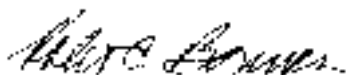
Since CBP was established on March 1, 2003, we have made enormous progress unifying as a single border agency and securing our borders. We have done this through a number of significant initiatives and actions:

- Last year, 20,000 customs, immigration, and agriculture inspectors were converted to the new CBP uniform reflecting "one face" and one agency at the borders of our country. All legacy Customs and Immigration inspectors at our ports of entry—our airports, seaports, and land borders—were converted to the new position of CBP Officers. These actions were important steps to unify CBP as one agency. In ceremonies across the United States, CBP Officers and CBP Border Patrol Agents were issued CBP badges and joined together by one overarching priority mission at our nation's borders.
- With the creation of CBP—a single, united border agency—the United States, for the first time in its history, has one border agency and one comprehensive border strategy aimed at stopping terrorists and terrorist weapons, illegal drugs, aliens, and materials harmful to agriculture and the American public from entering at—or between—the ports of entry.
- We have not only better secured our borders at and between our ports of entry, but we have extended our zone of security beyond our physical borders with bi-national and private sector partnerships, technology, advance information and targeting, and by establishing a multi-layered, defense-in-depth strategy. This extended border strategy provides an additional bulwark protecting our country from terrorists and terrorist weapons. Through bi-national agreements, such as the Container Security Initiative (CSI), we have significantly extended our zone of security. Under CSI agreements, CBP has joined forces with foreign governments to place teams of CBP Officers at 34 of the largest container ports in the world to pre-screen cargo containers before they are loaded onto ships bound for the U.S. Through our partnership with the private sector—the Customs-Trade Partnership Against Terrorism (C-TPAT)—we have also significantly improved security in our supply chain by working with more than 8,000 private companies who have joined C-TPAT.
- CBP has expanded, integrated and deployed technologies to CBP Officers and CBP Border Patrol Agents, including fixed wing aircraft and helicopters, unmanned aerial vehicles and other land-based detection technologies. CBP is increasing the use of remote monitoring technology along the borders, and has expanded the deployment of detection technologies at the ports of entry and interior checkpoints, such as non-intrusive inspection technology and radiation detection equipment to increase the likelihood that contraband, including Weapons of Mass Destruction (WMDs), will be detected.

- CBP continues to refine the Automated Commercial Environment (ACE), to reform the way we do business with the trade community and to assist in CBP's twin goals of securing and facilitating the movement of legitimate trade. ACE will be the single window into the U.S. Government for data related to the import and export of goods and the means to convey them to — and across — our borders.
- We continue to implement a variety of programs to both protect and facilitate travel, such as NEXUS, NEXUS AIR, and Secure Electronic Network for Traveler's Rapid Inspection (SENTRI), and programs such as Free and Secure Trade (FAST), which expedite processing of people and goods at our land border crossings. Likewise, we have implemented technology aimed at preventing terrorists and criminals from breaching our borders, such as US-VISIT and the Integrated Automated Fingerprint Identification System (IAFIS).
- While CBP prides itself on our professional workforce, as a new agency, we have placed an increased emphasis on professionalism and a code of conduct that ensures the millions of travelers we interact with each year are treated with courtesy and respect.

This year, CBP processed more than 468 million passengers and pedestrians, as well as 23.5 million sea, truck and rail containers; apprehended over 1.1 million aliens attempting to enter the U.S. illegally; seized more than 2.1 million pounds of illegal drugs; and collected more than \$27 billion in revenue.

This has truly been a year of accomplishments. The entire CBP workforce has risen to help unify our agency and meet our priority homeland security mission of preventing terrorists and terrorist weapons from entering our nation.



Robert C. Bonner

Message from the Chief Financial Officer



As the recently appointed Assistant Commissioner for the Office of Finance and Chief Financial Officer (CFO) for CBP, I am pleased to present the CBP Performance and Annual Report for FY 2004. The purpose of this report is to update you on our stewardship of CBP's resources through the integration of mission accomplishments with the financial performance of our agency.

The merger of organizational components from the U.S. Customs Service, Immigration and Naturalization Service (INS), the Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS), and the entire Border Patrol into CBP back on March 1, 2003, generated unique programmatic and managerial challenges for our agency that carried into FY 2004. In creating a consolidated border protection agency with "one face at the border," a tremendous amount of effort went into the realignment of resources and supporting infrastructure under a united force. The evolution continues today with CBP now over 40,000 employees strong.

But where there are challenges to be overcome, there are also opportunities. In the financial and asset management arena, the goal of CBP moving forward is to normalize operations and to promote stability and uniformity through the establishment of appropriate budget baselines and through the proper allocation and distribution of available resources. This will promote well-informed decisions on agency resources, enhance the accountability of responsible officials, and ensure that field managers have the resources they need to carry out CBP's expanded and critical mission.

Additionally, over this past year, CBP made significant progress in the implementation of our critical financial management systems' initiatives as part of our continuing effort to modernize our financial systems. CBP's enterprise resource planning system solution, SAP, provides the tools for enhanced customer service and facilitates a shift in the role of finance from a transaction process/record-keeping function to a more analytical and integrated decision-making function. Release 2, which went live in October 2003, addressed procurement, property management, and receipt of goods and services procured. Throughout the remainder of

FY 2004, the Office of Finance worked in partnership with the Office of Information and Technology to ensure the successful deployment of Release 3, providing integrated processing for core finance, budget execution, and reporting.

CBP continues to play a significant role in the execution of its shared services responsibilities. The shared service approach facilitates more efficient and effective delivery of administrative and mission support services to a Tri-Bureau group comprised of CBP, U.S. Immigration and Customs Enforcement (ICE) and U.S. Citizenship and Immigration Services (CIS). CBP's Office of Finance is the service provider for all bureaus for fleet management, CBP forms design, management and distribution, printing and graphics, and facilities construction, management and acquisition. Through the use of documented Service Level Agreements, performance is monitored to ensure service expectations are met or exceeded.

As we strive to secure recognition as an enduring leader in financial management, we remain committed to providing the highest level of quality service to the agency and its stakeholders. Initiatives are underway within the Office of Finance that underscore our emphasis on developing and retaining a quality workforce and institutionally strengthening our performance. Moving into FY 2005, we plan to carry out our financial stewardship responsibilities through the efficient planning and management of the agency's resources, execution of our shared services responsibilities across the Department of Homeland Security, and most importantly, through cost-effective delivery of superior customer service.

Richard L. Balaban



CBP is an integral part of the Department of Homeland Security.

Overview

Overview

CBP Mission Statement

We are the guardians of our Nation's borders.

We are America's frontline.

We safeguard the American homeland at and beyond our borders.

We protect the American public against terrorists and the instruments of terror.

We steadfastly enforce the laws of the United States while fostering our Nation's economic security through lawful international trade and travel.

We serve the American public with vigilance, integrity, and professionalism.

CBP Core Values

Vigilance is how we ensure the safety of all Americans.

We are continuously watchful and alert to deter, detect and prevent threats to our Nation. We demonstrate courage and valor in the protection of our Nation.

Service to Country is embodied in the work we do. We are dedicated to defending and upholding the Constitution of the United States. The American people have entrusted us to protect the homeland and defend liberty.

Integrity is our cornerstone. We are guided by the highest ethical and moral principles. Our actions bring honor to ourselves and our agency.

Vital Statistics for FY 2004

40,000 plus CBP employees

317 ports of entry

28.1 million trade entries

\$27 billion in revenue collected

2.2 million pounds of narcotics seized (.844 million by CBP officers and 1.36 million by Border Patrol agents).

468 million pedestrians and passengers processed

134 million conveyances processed

The terrorist attacks on New York and Washington challenged us in ways we had never before experienced. The agency's mission and its future had been dramatically altered. Clearly, our priority mission had changed to a security prevention mission: preventing terrorists and terrorist weapons from entering the United States. Also understood was the significance of securing our borders without choking the flow of legitimate trade and travel — all while continuing to carry out the traditional missions of the predecessor agencies that make up U.S. Customs and Border Protection.

Commissioner Robert C. Bonner

Testimony before the National Commission on Terrorist Attacks Upon the United States,

January 26, 2004

Overview – America’s Frontline: One Team Protecting Our Borders

CBP is the unified border agency within the Department of Homeland Security (DHS) charged with the important priority mission of preventing terrorists and terrorist weapons from entering the United States, while also facilitating the flow of legitimate trade and travel. CBP combines the inspectional workforces and broad border authorities of former legacy U.S. Customs, legacy Immigration and Naturalization Service (INS), legacy USDA Animal and Plant Health Inspection Service (APHIS) and the entire U.S. Border Patrol. CBP includes more than 40,000 employees to manage, control and protect the Nation’s borders, at and between the official ports of entry. For the first time in our nation’s history one agency has the sole responsibility of protecting our borders. As the single, unified border agency, CBP’s mission is vitally important to the protection of America and the American people.

Highlights of our FY 2004 accomplishments include:

- Implemented an extended and layered border strategy to improve security at and between our ports of entry
- Expanded the operation of CSI in 34 foreign ports
- Expanded public-private sector partnerships, such as C-TPAT
- Implemented “smart border” initiatives through FAST and NEXUS/SENTRI
- Developed a national strategy for CBP’s Office of Border Patrol
- Expanded IAFIS to all Border Patrol facilities
- Improved selectivity and targeting through the National Targeting Center (NTC)
- Established the Professionalism Initiative which will ensure that CBP employees have the tools and resources to carry out our critical homeland security missions
- Converted all former Customs and Immigration Inspectors and Canine Enforcement Officers to the new CBP Officer position



A CBP Officer puts new technologies to use to help secure the homeland.

- Implemented US-VISIT as part of a continuum of security measures that begins overseas and continues through a visitor’s arrival in and departure from the United States. It incorporates eligibility determinations made by both DHS and the State Department.

CBP Priority Mission

The priority mission of CBP is homeland security. As the border agency charged with managing, securing, and controlling our nation’s border, CBP’s priority mission is to prevent terrorists and terrorist weapons from entering the United States. An important aspect of this priority mission involves not only improving security both at and between our ports of entry, but also extending our zone of security beyond our physical borders. This extended border strategy is essential to creating smart borders and a layered defense-in-depth strategy.

In carrying out its priority mission, CBP works to facilitate the movement of legitimate trade and people. We will accomplish our security and facilitation goals by increasing advance data reporting regarding incoming and outgoing people, conveyances, and goods; improving our targeting ability; and using technology to leverage our resources, including modernizing automated processing systems. CBP will promote government and private sector partnerships that permit screening of cargo and people beyond our borders.

In addition to our priority mission, CBP works to protect America and its citizens by using innovative approaches to more effectively carry out its traditional missions. These include controlling our borders by apprehending individuals attempting to enter the United States illegally; stemming the flow of illegal drugs and other contraband; protecting our agriculture and economic interests from harmful pests and diseases; clearing all people, vehicles, and cargo entering the United States; maintaining export controls; protecting

American businesses from theft of their intellectual property; regulating and facilitating international trade; collecting import duties; and enforcing United States trade, immigration, and other laws at our borders. These efforts are aimed at enhancing border security, both at and between the ports of entry and preventing illegal contraband and people from transiting our borders.

None of these priorities, however, can be accomplished without building a strong and effective management support structure that assures quality recruitment of a skilled and diverse workforce. In addition, CBP must continue to use integrated and advanced technologies in order to enhance information flow, and must ensure we have effective financial systems.

One Face at the Border

Day and night CBP employees serve and protect the United States against those who intend to harm us. In April 2004, former Agriculture Inspectors became CBP Agriculture Specialists. On July 25, 2004, all former Customs and Immigration Inspectors and Canine Enforcement Officers were converted to the new CBP Officer position under a single compensation system (COPRA), with a new series, title, job description, and a new DHS badge. By combining the resources, skills and best practices of the separate workforces into a unified occupation, we can maximize efficiency and focus on the priority mission of preventing terrorists and terrorist weapons from entering the United States. On August 6, 2004, CBP Commissioner Robert C. Bonner and senior Homeland Security executives presided over ceremonies in Newark, Detroit, and San Ysidro, in which CBP Officers, CBP Agriculture Specialists, and CBP Border Patrol Agents received the first DHS law enforcement badges.

Historically, travelers entering the United States have had to make two or three separate stops—for immigration inspection, customs inspection, and if they are carrying food or plants, agriculture inspection—greeted by three separate Homeland Security employees. With the creation of the CBP Officer position, CBP is following through on a commitment to process travelers more rapidly and conveniently. The result is one-stop processing for all clearance needs—customs, immigration, and agriculture—and maximized efficiency for travelers and members of the trade.

Building on the knowledge and skills of the consolidated workforce, the CBP Officer continues to carry out the important traditional missions at the ports, including interdicting illegal drugs and other contraband, enforcing

trade and immigration laws, apprehending those attempting to enter the United States illegally, and protecting United States agricultural interests from harmful pests and diseases. A CBP Agriculture Specialist supports the CBP Officer in the analysis of agriculture imports and the examination of cargo.

Container Security Initiative

In post-9/11 America, CSI is based on the idea of extending our zone of security outward so that American borders are the last line of defense, not the first. Through CSI, which was announced by Commissioner Robert C. Bonner in January 2002, maritime containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the United States. CSI consists of four core elements:

1. Using intelligence and automated advance information to identify and target containers that pose a risk for terrorism;
2. Pre-screening those containers that pose a risk at the port of departure before they arrive at U.S. ports;
3. Using detection technology to pre-screen containers that pose a risk; and
4. Using smarter, tamper-evident containers.

Under the CSI program, teams of CBP officials deployed to work in concert with their host nation counterparts accomplish the screening of containers that pose a risk for terrorism.

Containerized shipping is a critical component of global trade because approximately 90 percent of the world's trade is transported in cargo containers. In the United States, almost half of incoming trade (by value) arrives by containers onboard ships. More than nine million cargo containers arrive on ships and are offloaded at U.S. seaports each year.

Early on, CSI focused on implementing the program at the top 20 foreign ports, which ship approximately two thirds of the volume of containers to the U.S. During FY 04, operation of CSI was expanded to 26 foreign ports. CBP will continue to expand the program to additional ports based on volume, location and strategic concerns. Strong support from countries on the European, Asian and African continents ensure that CSI will continue to expand to ports in those areas. CSI is a reciprocal program and offers its participating countries the opportunity to send their customs officers to major U.S. ports to target ocean-going, containerized cargo being exported to their countries. Likewise, CBP shares information on a bilateral basis with its CSI partners.

Industry Partnership Programs

Every year more merchandise flows across borders while CBP resources are limited. CBP, therefore, has to work smarter with the resources it has at its disposal and bring the trade community into this process. This has been an important element in CBP's continued efforts to combat smuggling.

For CBP, partnerships with industry have become essential. The agency has found that the vast majority of companies want to operate in compliance with regulations and procedures.

CBP works to increase effective use of automation, risk management and industry awareness of security risks to improve enforcement. The private-sector makes a commitment to improve security infrastructure, ensure compliance with customs requirements, and share information. Proof of the value of these partnerships is the tremendous support that CBP has received from carriers and other businesses participating in industry partnerships.

In recent years, legitimate commerce has become a potential vehicle for money laundering and smuggling and has led CBP to undertake significant efforts to enter into partnerships with the private sector. These programs have set goals to bring about increased awareness on the part of the transportation and trade industries of the threat posed by drug smugglers and to encourage them to improve security measures to counter that threat.

Currently, there are more than 3,800 air, sea, and land carriers participating in the Carrier Initiative Program (CIP) and over 200 companies participating in the Business Anti-Smuggling Coalition (BASC). CBP is involved in a number of industry partnerships which will be briefly discussed in the following pages.

Customs-Trade Partnership Against Terrorism (C-TPAT)

As a direct response to the events of September 11, 2001, CBP introduced a bold new anti-terrorism initiative called "Customs-Trade Partnerships Against Terrorism" (C-TPAT), which engages the trade community in a cooperative relationship with Customs.

C-TPAT is part of CBP's extended border strategy to protect America against the terrorist threat, and to protect the global supply chain and facilitate trade. Under the C-TPAT initiative, Customs works with importers, carriers, brokers and other industry sectors to enhance supply chain security, and meet our twin goals of security and facilitation.

By providing a forum in which the business community and Customs can exchange anti-terrorism ideas, concepts and information, both the government and business community will increase the security of the entire commercial process from manufacture through transportation and importation to ultimate distribution.

Americas' Counter Smuggling Initiative (ACSI)

Under C-TPAT, ACSI is a priority undertaking by CBP. ACSI is designed to counter the smuggling of drugs and the possible introduction of implements of terror in commercial cargo and conveyances. ACSI focuses on each aspect of the commercial transportation process and offers a more comprehensive approach to dealing with this problem.

Business Anti-Smuggling Coalition (BASC)

CBP supports BASC, a private-sector led and controlled coalition created to address the problem of concealing contraband in commercial trade. As a voluntary program for businesses, with no government-imposed mandates, corporate participants are expected to follow BASC security standards that both improve their security practices and deter contraband smugglers and terrorists from using their companies to introduce contraband and implements of terror into legitimate shipments.

Carrier Initiative Program (CIP)

CBP provides anti-drug smuggling training to air, sea and land commercial transport companies (carriers). This training is part of the CBP Carrier Initiative and Super Carrier Initiative Programs under which CBP and the carrier companies cooperate to prevent commercial conveyances from being used to smuggle narcotics.

CIP trains employees of carriers with route systems that are high-risk for drug smuggling and that voluntarily sign agreements with CBP. The carriers agree to exercise the highest degree of care and diligence in securing their facilities and conveyances, while CBP agrees to conduct site surveys and provide appropriate training and recommendations for improving security. The degree of a carrier's compliance with the agreement may become a mitigating factor in the assessment of a penalty if narcotics are found on board a conveyance. The Super Carrier Initiative Program is for those carriers that face an extraordinarily high risk from drug traffickers. CBP and various carriers have signed over 3,800 Carrier Initiative Agreements and 27 Super Carrier Agreements.

CBP has established criteria for determining carriers to whom Carrier Initiative training will be provided. The conveyances used by the company must be a potential target



CBP officers conduct a routine inspection of a passenger train.

of drug smugglers and those carriers facing the greatest level of risk will be given priority. Preference is given to those organizations that have signed carrier agreements. Prevention of cocaine smuggling is a priority. Sponsors are expected to open the training program to other interested parties and must be willing to provide the venue, training equipment, and interpreters, if necessary. While foreign law enforcement officials may attend the training, the program is directed at the private sector.

Free and Secure Trade (FAST) Initiative

The FAST Initiative, an expedited clearance program for known low-risk shipments, has been extended. The FAST program is a bilateral initiative between the United States and Mexico and a bilateral initiative between the United States and Canada designed to ensure security and safety while enhancing the economic prosperity of both countries. In developing these programs, Mexico, Canada and the United States have agreed to harmonize, to the maximum extent possible, their commercial processes for clearance of commercial shipments at the border. This will promote free and secure trade by using common risk-management principles, supply chain security, industry partnership, and advanced technology to improve the efficiency of screening and clearing commercial traffic at our shared border.

FAST is an ambitious program both in terms of its scope and its implementation dates. For the United States and Mexico, the initiative's objectives promise to revolutionize the processing of trans-border trade. The program aims to

increase the integrity of supply chain security by offering expedited clearance to carriers and importers enrolled in C-TPAT. It's designed to streamline and integrate registration processes for drivers, carriers, and importers; minimize paperwork; and ensure only low-risk participants are enrolled as members.

The initiative seeks to expedite the clearance of trans-border shipments of compliant partners by reducing CBP information requirements, dedicating lanes at major crossings to FAST participants, using common technology, and physically examining cargo transported by these low-risk clients with minimal frequency. The program is a catalyst for CBP administrations to participate in the enhanced technologies by using transponders, which would make it easier to clear low-risk shipments, and would mitigate the cost of program participation for FAST partners.

Strategic Goals for Future Years

CBP's strategic planning process is driven by the need to address the global challenges we face on a daily basis. The CBP Strategic Plan is based on the priorities that were established and articulated by the Secretary of Homeland Security, the Under Secretary of Border and Transportation Security, and the Commissioner of CBP. The Strategic Plan is prepared with input from senior managers to reflect priorities and is linked directly to the budgets prepared by CBP. The Strategic Plan also considers budget justification materials and internal strategic planning initiatives.

CBP has six primary strategic goals:

1. **Preventing Terrorism At the Ports of Entry:** Detect and prevent terrorists and terrorist weapons, including weapons of mass destruction, from entering the United States.
2. **Preventing Terrorism Between the Ports of Entry:** Strengthen national security between the ports of entry to prevent the illegal entry of terrorists, terrorist weapons, contraband, and illegal aliens into the United States.
3. **Unifying As One Border Agency:** Increase the security of our homeland by merging and unifying all United States border agencies.
4. **Balancing Legitimate Trade and Travel with Security:** Facilitate the efficient movement of legitimate cargo and people while safeguarding and securing the borders of the United States.

5. **Protecting America and its Citizens:** Contribute to a safer America by prohibiting the introduction of illicit contraband, including illegal drugs, and other harmful materials and organisms, into the United States.
6. **Modernizing and Managing:** Continue to build a strong, modern management infrastructure that assures the achievement of business results.

By achieving these goals through partnerships with government agencies, the private-sector, and foreign governments, CBP will support DHS and its mission to protect our nation against attacks and threats to our homeland.

Organization

Headquarters

Office of the Commissioner

Robert C. Bonner was nominated by President George W. Bush to serve as Commissioner of the United States Customs Service on June 24, 2001. He was sworn in as the 17th Commissioner of U.S. Customs on September 24, 2001. Since March 1, 2003, he has served as the first Commissioner of CBP, the agency of DHS responsible for managing, controlling and securing our Nation's borders.

The Deputy Commissioner

Deborah Spero has served as Deputy Commissioner of CBP since April 2004. In that capacity, Ms. Spero is responsible for providing leadership and executive-level direction to CBP's day-to-day operations. This includes oversight of agency initiatives that facilitate the international movement of legitimate, low-risk goods and travelers while promoting effective border security.

Component Organizations and Field Structure

CBP is organized into 18 separate offices. Six of these offices are the Commissioner's Staff Offices, which are responsible for issues falling under the Commissioner's direct operational control and which report directly to the Commissioner. The Commissioner's Staff Offices are described briefly below. Assistant Commissioners of CBP head 12 additional offices.

Commissioner's Staff Offices

Office of Anti-Terrorism (OAT): Serves as the principal advisor to the Commissioner and other senior officials on CBP anti-terrorism programs. OAT monitors, coordinates, recommends, assesses and participates in the development of all policy, programs, training and matters relating to terrorism,

in order to ensure that CBP is maximizing its anti-terrorism efforts with regard to CBP's security mission and within the federal law enforcement community and homeland security structure

Office of Equal Employment Opportunity (EEO):

Establishes the policies and programs necessary to ensure compliance with the law. The EEO office works aggressively to find solutions to workplace conflict, particularly perceived or actual unfair treatment in the workplace.

Office of Intelligence (OINT): Serves as the primary advisor on intelligence matters. OINT is responsible for disseminating all-source intelligence on border security issues to CBP personnel in direct support of their interdiction mission.

Office of Policy and Planning (OPP): Provides leadership to CBP's overall policy development, strategic planning, performance measurement, and audit evaluation processes.

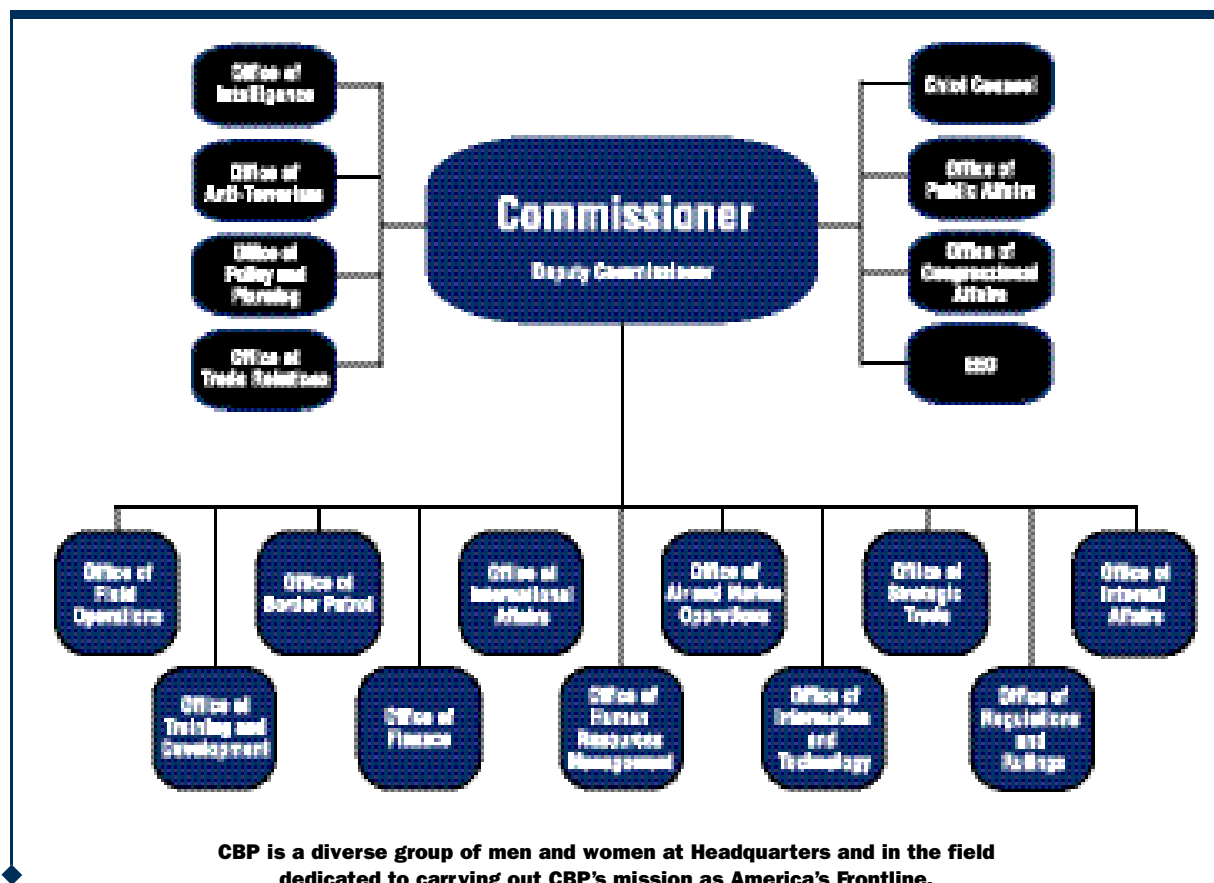
Office of Trade Relations (OTR): Serves as the primary contact for the international trade community for advancing their issues and ideas to CBP leadership, and as primary contact for CBP to advance its agenda to the trade community.

Office of Public Affairs (OPA): Supervises the national and international public communication process through its staff in the following areas: press, Internet, audiovisual, editorial and speech writing services, internal communication, and public information.

Assistant Commissioners' Offices

Office of Border Patrol (OBP): The primary federal law enforcement organization responsible for preventing the entry of terrorists and terrorist weapons into United States between official CBP ports of entry (POEs). Their traditional mission is to enforce immigration laws and to detect, interdict and apprehend those who attempt to illegally enter or smuggle people or contraband across U.S. borders between official ports of entry. The Border Patrol has a workforce of over 12,700 employees, of whom over 10,800 are agents assigned to patrol thousands of miles of America's borders. The Border Patrol has an operating budget of \$1.4 billion, which provides for operations coordinated by 21 sector offices.

Office of Chief Counsel (OCC): Serves as the chief legal officer of CBP and reports to the General Counsel of the Department of Homeland Security through the Assistant General Counsel, Border and Transportation Security. The



Chief Counsel serves as the Ethics Officer for the organization and is the principal legal advisor to the Commissioner of CBP and its officers. The Office of the Chief Counsel provides legal advice to, and legal representation of, CBP officers in matters relating to the activities and functions of CBP.

Office of Congressional Affairs (OCA): Advises CBP managers on legislative and congressional matters and assists members of Congress and their staffs in understanding current and proposed CBP programs.

Office of Field Operations (OFO): Enforces customs, immigration, and agriculture laws and regulations at U.S. borders. OFO is comprised of 25,000 employees, including more than 19,000 CBP Officers and Agriculture Specialists. OFO maintains programs at 20 field operations offices, 317 POEs, and 14 pre-clearance stations in Canada and the Caribbean. A Director of Field Operations (DFO) runs each field operations office. Port Directors oversee POEs in their operational areas, where virtually all conveyances, passengers and goods legally enter and exit the United States. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through the POEs with four main programs—Border Security and Facilitation, Trade Compliance and Facilitation, Operations, and National Targeting and Security. Border Security and Facilitation issues include Interdiction and Security, Passenger Operations, and Canine Enforcement. Trade Compliance and Facilitation focuses on Summary Operations, Trade Risk

Management, Account Management, Enforcement, and Seizures and Penalties. Operations includes Logistics, Human Resources, Field Programs and Field Liaison. OFO also administers Agricultural Inspection Policy and Programs and Immigration Policy and Programs, which develop and implement policies to better enforce laws and regulations at U.S. borders.

Office of Finance (OF) and CFO: Oversees all financial operations, procurement, asset management, and budget activities within CBP. OF is responsible for the administration of approximately \$6 billion that is budgeted annually for law enforcement and trade operations.

Office of Human Resources Management (HRM): Plans for human resources in support of the business process improvement efforts, personnel services, training, labor management relations, and worker safety.

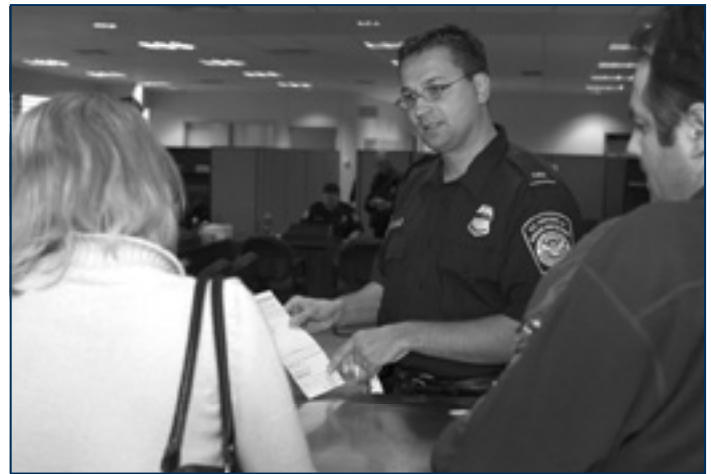
Office of Information and Technology (OIT): Implements and supports information technology research and development functions, and automation and technological strategies for meeting mission-related needs. OIT personnel manage all computer and related resources, including all operational aspects of the Computer Security Program; establish requirements for computer interfaces between CBP and various trade groups and government agencies; and manage matters related to automated import processing and systems development.

Office of Internal Affairs (OIA): Exercises oversight authority for all aspects of CBP operations, personnel and facilities. Internal Affairs is responsible for ensuring compliance with all bureau-wide programs and policies relating to corruption, misconduct, or mismanagement, for investigating misconduct by CBP employees, and for executing the internal security, integrity, and management inspections program. Internal Affairs also screens potential CBP employees for suitability; educates employees concerning ethical standards and integrity responsibilities; evaluates physical security threats to CBP facilities, and sensitive information; and inspects CBP operations and processes for managerial effectiveness and improvements.

Office of International Affairs (INA): Manages international activities and programs and conducts bilateral and multilateral discussions on behalf of CBP with other countries and international organizations. INA is an integral part in CBP's efforts to develop programs like the CSI that effectively push our zone of security out beyond U.S. borders. INA also oversees the negotiation and implementation of all international agreements and is responsible for all foreign training and technical assistance provided by CBP.

Office of Regulations and Rulings (OR&R): Develops, implements, and evaluates bureau-wide programs, policies, and procedures pertaining to regulations and rulings issued by or affecting CBP. OR&R has a major responsibility for providing compliance information to members of the trade community. It provides policy and technical support to CBP, DHS, the Congress, other government agencies, and the importing public concerning CBP and the application of laws, regulations, and procedures administered by CBP. The office also issues rulings, legal determinations, and guidelines relating to: claims (including claims for liquidated damages), fines, penalties, forfeitures, classification and value of merchandise, carriers, drawback and bonds, entry, licensing, intellectual property rights (IPR), restricted merchandise, and disclosure law.

Office of Strategic Trade (OST): Identifies and confronts major trade issues facing the U.S. by innovative research and analysis and by the creation of an array of coordinated interventions. OST is also responsible for developing the strategies to assess the level of trade compliance, publishing CBP compliance data to enable the trade to initiate their own efforts to achieve compliance, and providing leadership for developing and implementing an integrated trade enforcement program. Also, OST, through the Regulatory Audit Division, conducts audits of companies to assess compliance with CBP laws and regulations. Regulatory Audit



Upon arrival to the United States, a CBP officer interviews passengers.

conducts Focused Assessments, supports the ISA Program and offers technical audit support to other CBP disciplines.

Office of Training and Development (OTD): Ensures that all training efforts support the CBP mission and strategic goals, meet the needs of a diverse and dispersed workforce, and contribute to measurable outcomes and results.

Challenges and Strategic Planning

CBP is currently striving to achieve a number of significant goals and priorities:

Pushing our Borders Outward – Continued implementation of proven programs such as the CSI, C-TPAT, and the Immigration Advisory Program (IAP).

Plugging Gaps in Security at and Between the Borders – Secure adequate resources to exercise reasonable and substantial control over vulnerable areas, programs, and gaps in the security infrastructure.

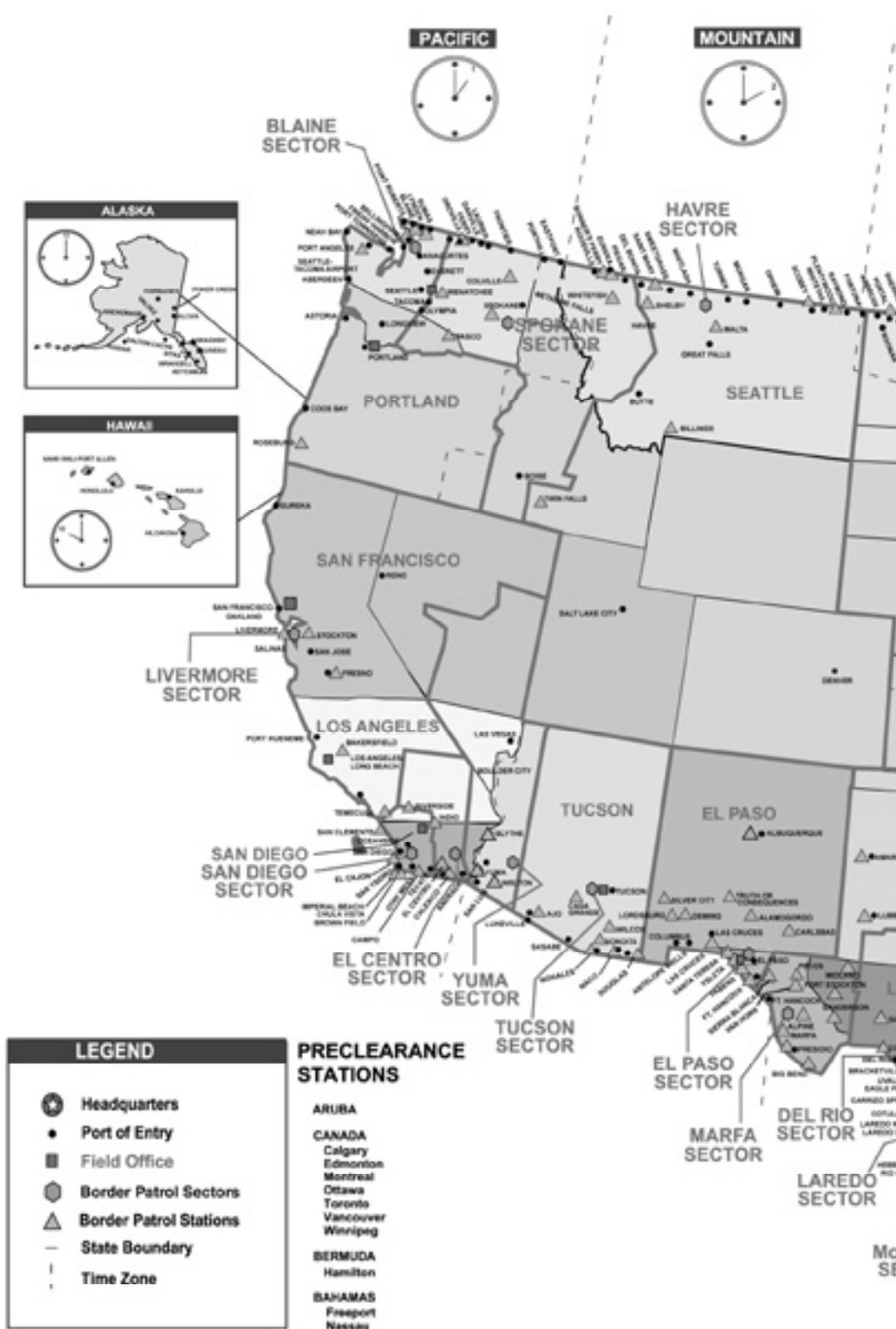
Changing the Way We Do Business – Work with the international trade community in order to facilitate and improve the flow of legitimate trade without impairing homeland security.

Focusing on Targeting and Analysis – Further develop and improve systems to allow for the better collection and analysis of passenger and trade data prior to arrival. Use automated targeting and advanced information as a high-risk selection tool and resource.

Leveraging Technology and Automation – Continue investment in non-intrusive technologies, expand programs to leverage unique assets, like those found in the chemical



U.S. Customs and Border Protection





and explosive canine program, while hardening our borders with the deployment of technology that enhances port security. Continue to invest in the development of next generation systems.

Securing and Using Information – Implement resources that will provide the ability to collect and analyze enforcement data and ensure that the necessary infrastructure is in place so information reaches those needing it most.

Training – Secure resources to ensure adequate training to meet the demands of the changing environment and organization. Focus training on advanced law enforcement techniques and cross training to handle the threat of terrorists and other homeland security responsibilities. Use technology to leverage resources to meet training needs.

Implementing Information Technology Infrastructure – Devote resources to allow for the secure transmittal of confidential data and the continued development and implementation of critical systems, all of which will remedy weaknesses in our systems. Modernizing information systems to better accomplish and carry out mission priorities.

Focusing on High Impact – Secure adequate resources to fill gaps in vulnerable areas and implement programs and initiatives to combat international terrorism.

Improving Management Effectiveness – Implement “one face at the border” and make the agency more efficient and responsive to programmatic objectives, eliminating all audited material weaknesses as expeditiously as possible, internalizing core values and recognizing and rewarding outstanding performance. Implementing steps to convey a unified message to the traveling public and the trade community.

Continuing to Strengthen Partnerships – CBP will continue to rely heavily on partnerships formed with other law enforcement agencies, the trade and travel communities, the public, and perhaps most importantly, its partnership with ICE.

Additional details of CBP’s organization, structure, and strategic planning are available at the CBP website (<http://www.cbp.gov>)

CBP’s Alignment with DHS’ Strategic Plan

CBP is in the process of realigning its performance measures with DHS’ strategic objectives. DHS has 7 strategic goals: Awareness, Prevention, Protection, Response, Recovery, Service, and Organizational Excellence. Of the 7 goals, CBP’s mission objectives align primarily under the Prevention and Service strategic goals. The Prevention goal seeks to detect, deter and prevent threats to our homeland. The Service goal seeks to serve the public effectively by facilitating lawful trade, travel and immigration.

Additional details of DHS’ organization, structure, and strategic planning are available at the DHS website (<http://www.dhs.gov>)

Composition of CBP Inspection and Patrol Workforce

Full-Time Permanent On-Board Staff

	FY 2003	FY 2004
	On-Board 10/4/2003	On-Board 10/2/2004
Canine Enforcement Officer**	736	n/a
Import Specialist	1,027	1,021
Customs Inspector**	9,893	n/a
CBP Agriculture Specialist	1,471	1,443
Border Patrol Agent*	10,634	10,817
Immigration Inspector* **	6,907	n/a
CBP Officer**	n/a	17,691

* For FY 2003, data provided as of 3/9/2003.

** Canine Enforcement Officers, Customs Inspectors, and Immigration Inspectors were all converted to the new CBP Officer position.

Budget

Actual Fiscal Year Budget Resource Obligations (in millions)

	2000	2001	2002	2003	2004
Salaries and Expenses Direct (includes obligations authorized under COBRA)	\$ 2,041	\$ 2,158	\$ 2,309	\$ 2,501	\$ 4,097
Salaries and Expenses Reimbursable	542	451	519	555	1001
Automation Modernization		161	476	280	327
Puerto Rico Refunds, Transfers, Expenses	96	86	87	88	91
Operations and Maintenance	177	214	206	193	0
Facilities	2	8	0	0	4
Small Airports	3	3	6	3	5
Crime Bill	21	65	35	34	1
Refunds, Transfers	5	7	6	6	9
Harbor Maintenance Fee	3	3	3	3	3
Facility Construction					3
Total	\$2,890*	\$3,156*	\$3,647*	\$3,663*	\$ 5,541

*Totals recalculated from FY 03 publication

How CBP Used its Budgetary Resources

The chart above presents the distribution of CBP budget resource obligations for FY 04, as compared to previous years. Please note that FY 00—FY 03 are legacy Customs categories and amounts. CBP current budget resources were assigned during OMB's Determination Order process. In carrying out its program activities, CBP spent the greatest part of its appropriated resources in the Salaries and Expenses (S&E) categories. Reimbursable S&E account for approximately 18 percent of the annual budget. Automation Modernization represents the third largest CBP program category at approximately 6 percent of CBP's resource obligations. The Operations and Maintenance Program was transferred to ICE in FY 03. Facility Construction is a new category that the Border Patrol utilizes. This category addresses critical requirements for infrastructure systems, such as fencing, vehicle barriers, high intensity lighting, road improvements and apprehension by agents at the border and critical facilities requirements at Northern and Southern Border Patrol Sectors, Stations and checkpoints.



CBP officers will leave no stone unturned.

Preventing Terrorism At the Ports of Entry

Preventing Terrorism At the Ports of Entry

Goal: Detect and prevent terrorists and terrorist weapons, including weapons of mass destruction, from entering the United States.

Overview

CBP's primary mission involves facilitating legitimate international cargo and passengers through our borders and interdicting high-risk cargo and passengers while also maintaining the integrity between our borders. To achieve its mission, CBP's strategy is leveraged to be both multi-faceted, yet completely integrated. CBP is increasing the level of security against international terrorist threats at and between the POEs into the U.S. through the tireless pursuit of legislative and regulatory changes, international government and trade partnerships, automation solutions, technological innovations, international passenger programs and coordinated national targeting.

Challenges

The terrorist prevention mission of DHS is protecting our homeland from acts of terrorism and reducing the vulnerability to the threat of international terrorists. As an integral part of DHS, the priority mission of CBP is homeland security. As the border agency charged with managing, securing and controlling our nation's borders, CBP's priority mission is more accurately described as the prevention of terrorists and the implements of terrorism from entering the United States. An important aspect of this priority mission involves improving security at our borders and ports of entry but it also means extending our zone of security beyond our physical borders. This extended border strategy is essential to creating smart borders and a layered defense strategy.

In carrying out its priority mission, CBP must also work to facilitate the movement of legitimate trade and travelers across and through our borders efficiently, without compromising security.

Analysis of Performance

"U.S. Customs and Border Protection is addressing the terrorist threat 24-hours a day. We have a multi-layered approach that encompasses working with our foreign counterparts, employing intelligence, technology, advanced information in the field and the most professional workforce worldwide. We are aware of the terrorist threat and are evolving hourly to face it and keep America safe."

**-Robert C. Bonner, Commissioner of
U.S. Customs and Border Protection**

CBP uses various strategies and employs the latest in technology to accomplish its goals. CBP has extended its zone of security beyond its physical borders through the use of bilateral and private-sector partnerships, targeting and scrutinizing advance information on people and products coming into this country. CBP is cultivating "smart borders" through the use of technology and has established a layered defense strategy. And CBP has created "one face at the border," a unified, recognizable presence at the border that combines and capitalizes on the authorities and skills of our diverse workforce.

Trade Act of 2002 - Advance Information for All Commercial Modes

Information received early in the high-risk goods process is the key to successful targeting and the application of sound risk management principles.

In the Trade Act of 2002, Congress recognized the importance of such advance information by mandating presentation of advance data on all commercial shipments, both inbound and outbound. CBP worked through the consultative process called for in the Trade Act of 2002 to determine the most appropriate advance information requirements for land, rail, and air cargo. During this process, we met continuously with all segments of the trade. This ensured that the final rule for requiring this information would meet the security objectives of CBP while also taking into account the realities of the businesses involved in the different transport modes.

Performance goal: Cooperatively develop new rules with industry partners and other government agencies that will enhance security.

Performance measure: Publish Rule.

Results: Final rules governing the electronic transmission of advance manifest data on all commercial transportation modes, both inbound and outbound were published in December 5, 2003 (68 FR 68140). CBP's close consultation with the trade ensured that the final rules met CBP's security objectives while also taking into account the realities of the businesses involved in the different transport modes. These regulations, like the 24-hour rule, permit better risk management for the terrorist threat before cargo shipments reach the U.S. border ports of entry.

This precedent setting regulatory initiative, which covers merchandise transported into and out of the United States by air, sea, rail, and truck, substantially amended six different parts of Title 19 Code of Federal Regulations, which governs all CBP border security activities. As a result of this accomplishment, the CBP regulations provide the necessary authority and blueprint for receiving advance information regarding cargo arriving into, and leaving from, the U.S., thus enabling CBP to fortify an essential protective buffer around our nation.

After issuance of the rule, OR&R, with the assistance of the same multi-disciplinary team, drafted documents issued by CBP which set forth the compliance dates for each mode of transportation. These compliance dates gave each trans-

Timeframes in the Final Rule:

Mode	Inbound (before arrival)	Outbound
Truck	1 hour prior to arrival at the border for non-FAST participants, 30 minutes for FAST participants	No later than 1 hour prior to arrival at the border
Rail	2 hours prior to arrival at POEs	No later than 4 hours prior to attaching the engine to the train to go foreign.
Vessel	24 hours (prior to lading)	No later than 24 hours prior to departure of the vessel
Air	4 hours, Wheels up from the North American Free Trade Agreement (NAFTA) and Central and South America above the equator	No later than 2 hours prior to scheduled departure time of the aircraft.

portation mode a reasonable period of time to transition into the new requirements.

In addition to working with the transportation industry, CBP also continues to strengthen relations with international governments and trade partnerships. Programs such as the CSI represent how CBP is pushing the border out and cooperatively joining with other international governments to focus resources on combating terrorism at the source.

International Government and Trade Partnerships

The Container Security Initiative

Maritime security is a vital entity to both global security and trade. Given that approximately 90 percent of the world's cargo moves by sea container, ensuring the security of the maritime trade system is essential. In an effort to address the threat to border security and global trade posed by the potential use of containerized shipping to conceal a weapon of mass effect, Commissioner Robert C. Bonner initiated the CSI on January 17, 2002.

CSI serves as a deterrent to terrorist organizations that may seek to use containerized cargo as a conduit or conveyance for terrorism within the maritime environment by introducing security measures for both the participating ports and the United States. Under the CSI program, small groups of well-trained, multi-disciplinary CBP and ICE personnel are being deployed to work with host nation counterparts to target containers that pose a potential risk for terrorism. Through international collaboration with foreign govern-

ments, CBP can jointly achieve far greater security for maritime shipping than by working independently.

To date, CSI teams have been deployed to 34 foreign ports representing three regions of the world: Europe, Asia, and Africa. Currently, CSI teams located within those ports target approximately 48 percent of the worldwide maritime cargo destined for the United States. CSI will continue its expansion efforts to include additional ports that meet the minimum security standards set forth by the program, thereby increasing the percentage of direct cargo targeted by CSI teams. The continued expansion of CSI will include ports in areas such as South and Central America, Southeast Asia, and the Middle East.

Foreign Operations

In FY 04, CBP re-established Foreign Operations within INA and successfully opened two new CBP Attaché offices in Ottawa, Canada and Mexico City, Mexico. The offices will oversee CBP's CSI pre-clearance and other border coordination activities with the Governments of Canada and Mexico. Both offices are composed of CBP officers and Border Patrol personnel. These offices represent the Commissioner of CBP to both countries and the American Ambassadors to those countries. There are plans underway to open additional CBP Attaché offices in FY 05 although the exact locations have not been determined.

In addition, INA successfully launched a test of the Immigration Assistance Project (IAP) at Schiphol Airport in Amsterdam, The Netherlands, and made presentations of the initiative to the International Air Transport Association (IATA) and Civil Aviation Working Group (CAWG). A similar effort began in Warsaw, Poland, in September 2004. Both the Polish President and President Bush expressed their concerns about Polish citizens who were arriving in the United States with invalid visas. This initiative addresses those concerns.

There are efforts underway to expand IAP in FY 05 to the United Kingdom, France, Germany, Thailand, Japan, the Philippines and Mexico, under the joint direction of International Affairs and the Office of Field Operations.

Training and Assistance

The Law Enforcement Training Branch in INA conducts interdiction training for border control agencies in countries throughout the world. In response to the threat of terrorism, training modules were developed that cover the topics of chemical, biological, radiological, and conventional weapon characteristics. Border control officers are taught the basic recognition clues that point to potential threats in cargo and

in passenger processing areas. Safety is stressed in conducting examinations, and the importance of proper notifications is emphasized.

Counterterrorism training was incorporated into the curriculum of the International Law Enforcement Academies (ILEA) in Bangkok, Thailand; Budapest, Hungary; and Gaborone, Botswana; as well as basic and advanced border interdiction training programs in Morocco, Lebanon, Vietnam, Jordan, and Iceland. International border interdiction training is an effective strategy for moving our borders outward to foreign shores to the mutual benefit of the U.S. and our international colleagues.

The Export Control and related Border Security (EXBS) Program is the culmination of a number of smaller programs that have been funded by the Congress since the break-up of the Soviet Union, to counter the proliferation of WMD. The program is currently focused on all of the newly independent countries in Central and Eastern Europe, the Caucasus, Central Asia, and other high-threat countries such as Cyprus, Malta, India, Turkey, Singapore and the United Arab Emirates. Further expansion into the Middle East, Africa and South East Asia is planned.

CBP supports all EXBS countries, Russia being the most recent country to join the EXBS program in September 2004. Significant equipment and training deliveries have already been accomplished in all countries, including regional and country communication equipment, night-vision devices, sensors, and associated training.

CBP also serves as the executive agency for the Georgia Border Security program by administering funds, reporting to the Department of State and coordinating efforts with U.S. Coast Guard (USCG), other agencies (Commerce, Defense, Energy, etc.), the U.S. Embassy in Tbilisi and the host government. We supervise an Advisory Team and other in-country personnel, administer contracts, and maintain management oversight of the program.

The International Counter Proliferation (ICP) program is funded by The Department of Defense (DoD), Defense Threat Reduction Agency (DTRA), and provides for a variety of WMD-related investigative training programs and equipment that complements the interdiction focus of the EXBS program. The program is designed to enhance the foreign hosts' capability in not only interdicting prescribed materials and technologies, but to conduct investigations that lead to the identification and apprehension of the violators and their co-conspirators as well as their forfeitable assets. DTRA funded 10 training missions in five countries in FY 04.

CBP addresses the area of port security through its various training and assistance programs. Port Security Advisory Programs are long-term assistance programs. CBP officers with inspection backgrounds are currently serving as advisors in three Latin American countries: Guatemala, Ecuador and Venezuela. Two more advisors will soon be deployed to Lima, Peru. Given the nexus between terrorist organizations and drug trafficking (FARC/cocaine; Taliban/opium), and the U.S. global war on terrorism, these programs contribute to our efforts to extend our borders outward to protect the homeland. These programs complement the war on terrorism, both directly and indirectly, by promoting, through training and technical assistance, the modernization of the local law enforcement agencies charged with the counter-terrorism mission.

Over the last few years there has been a significant increase in the number of passengers entering and exiting Trinidad and Tobago. During this period, CBP Advisors, with the assistance of the U.S. Embassy and International Narcotics and Law Enforcement Affairs (INL) funding for capacity building activities, worked with the Government of Trinidad and Tobago Immigration Division, under the Ministry of National Security, and the Customs and Excise Division, under the Ministry of Finance, to establish a Passenger Analytical Unit (PAU) at Piarco International Airport.

The purpose of targeting in the passenger-processing environment is to identify and eliminate potential threats to the country and its concerns relating to drugs, terrorist activities, and violations of other laws enforced by CBP and ICE.

The PAU will process information obtained from local and foreign CBP intelligence units to target passengers for CBP and ICE officers both at Piarco and Crown Point, Tobago airports.

In an effort to address trade and travel issues within southeast Europe, the Office of International Affairs, CBP, supports the Southeast European Cooperative Initiative (SECI) which includes: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro. The main objective of this initiative is to improve economic and political integration in the Balkans and to foster stability and integration into international institutions such as the North Atlantic Treaty Organization (NATO) and the European Union.

SECI's contributions to southeast Europe include the development and establishment of standardized procedures within the region resulting in trade facilitation and an increase in the collection of revenue. Through structured and on-the-job training, our advisors train local enforcement



A CBP officer uses specialized equipment to identify a radiation source within a container.

officers to set up policies and procedures that make their efforts more effective at stopping the smuggling of narcotics and other contraband from Latin America to the United States; deter the use of false travel documents (visas, passports); and improve the flow of legitimate trade and passengers. The foreign officers learn principles of selectivity, manifest review, and cargo and passenger examination techniques.

Performance Goal: Develop a strategy that includes partnering with foreign governments to expand targeting and examination capabilities to detect implements of terrorism prior to arrival in the U.S.

Performance Measure: Foreign country participation in CSI.

Results: CSI allows CBP to target, and with our foreign counterparts, screen containers, prior to the container being loaded on ships destined for the United States. Teams of CBP officers have been assigned to 34 overseas ports to target and screen containers that pose a potential risk for terrorism destined for the United States. Twenty countries have committed to participation in CSI. There are 41 ports within those 20 countries that are in various stages of CSI implementation.

Customs-Trade Partnership Against Terrorism

CBP has active partnership programs that are designed to deter and prevent the smuggling of narcotics and implements of terror from being moved into the U.S. via commercial cargo and conveyances.

Premier among these active partnership programs is the C-TPAT program, which is a voluntary government-business initiative, designed to build cooperative relationships that enhance border security and facilitate legitimate trade. The goal of C-TPAT is to develop and maintain a secure supply chain, enabling CBP to facilitate trade while ensuring safe

and secure borders against terrorism. C-TPAT is designed to utilize and enhance the security processes and procedures currently employed by the trade community to ensure that international shipments are not compromised or diverted by terrorists or their accomplices. A C-TPAT participant is expected to conduct a self-assessment of its current supply chain security procedures and enhance security where vulnerabilities exist. Participants also make a commitment to work with their service providers throughout their supply chain to enhance security processes and procedures worldwide. CBP recognizes that a safe and secure supply chain is critical to national security and C-TPAT provides the highest level of security through close cooperation with the supply chain stakeholders—importers, brokers, carriers, and others. Participants in this first worldwide supply chain security initiative ensure a more secure supply chain for their employees, suppliers, and customers.

C-TPAT now has more than 8,000 members and is the largest public/private partnership in federal government in U.S. history. C-TPAT provides a forum for the business community and CBP to exchange anti-terrorism ideas, concepts and information to further secure the entire commercial process.

An earlier program already available for combating smuggling and terrorism is the Carrier Initiative Program (CIP). CIP, established in 1984, is a joint effort among air, sea, truck, and rail carriers and CBP. There are over 4,100 carriers currently participating in the CIP. The program encourages the carriers to improve their security practices in striving to prevent narcotics or other illicit commodities from getting onboard their conveyances.

Additionally, CBP has continued to support BASC, initiated in March 1996, which is a business-led alliance created to combat narcotics smuggling via commercial trade. BASC was designed to complement and enhance the CIP program. The idea behind BASC is to examine the entire process of manufacturing and shipping merchandise from foreign countries to the U.S. The program also heightens business awareness about narcotics smuggling in the import and export communities. Membership in BASC as of September 2003 included over 4,500 companies in Mexico, Panama, Ecuador, Peru, Jamaica, Costa Rica, Colombia and Venezuela.

Also, CBP has reached out to strengthen partnerships between industry and other governments through ACSI. The ACSI is an undertaking, established by CBP, to build upon the success of the CIP and BASC by strengthening and expanding our anti-narcotics security programs with industry and governments throughout Central and South America.

Since January 1998, CBP has detailed officers to assist businesses and governments in developing security programs and initiatives that safeguard legitimate shipments from being used to smuggle narcotics. Target countries include Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Venezuela, and Jamaica.

CBP has worked diligently to involve the international trade community, and foreign governments; it has also engaged in partnerships with other domestic government agencies to develop additional methods for securing our borders from the threats of terrorism.

Automation Solutions

Considering the global impact of free flowing trade and travel on the world economy, CBP cannot institute an examination methodology where every person or shipment will be examined. CBP uses a layered risk-management approach to preventing terrorism to mitigate the opportunity for terrorism, to increase the risk associated with international cargo or travel, and to facilitate legitimate cargo and passengers.

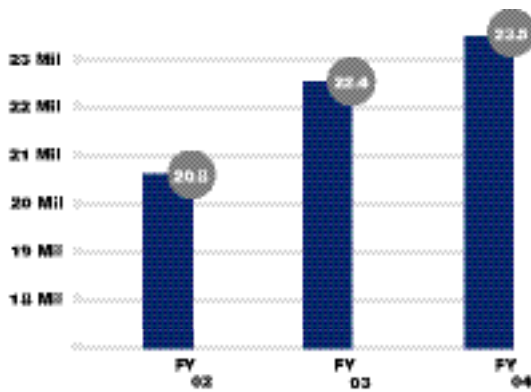
CBP's automated targeting capabilities are essential to the layered risk-management process employed to identify and inspect the high-risk targets that warrant screening and inspection. The premier tool employed by CBP to identify high-risk targets in both the cargo and passenger arena is the Automated Targeting System (ATS). The ATS platform enables CBP to collect, analyze, and select shipments and passengers for further review and examination. CBP uses the data collected through legislative and regulatory actions, such as the recent implementation of the 24-hour advance notice of arriving cargo, and the Passenger Name Record Information and Advance Passenger Information initiatives discussed later



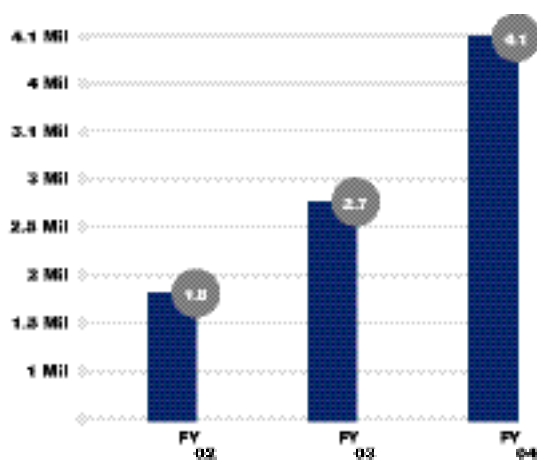
Through constant training, we are prepared for anything.

in the Passenger section of this document, to identify high risk cargo and travelers prior to their arrival. This early detection capability allows CBP to notify other foreign or domestic law enforcement agencies and prepare an appropriate response well before the actual arrival of the cargo or traveler. The ATS system is currently supporting CBP targeting efforts in both passenger and multi-modal cargo environments domestically and, through the CSI program, in operation in foreign countries.

National Container Totals



National Total Container Exams



Technological Innovations

Non-Intrusive Inspections

As trade increases, CBP's deployment of Non-Intrusive Inspections (NII) technology resources to support our layered risk management approach to secure the borders from terrorism becomes more and more critical. In conjunction with CBP's many other initiatives (C-TPAT, ATS, CSI, US-VISIT, and others), NII allows CBP to work "smarter."

Because of the risk that an adversary can circumvent any single sensor or device, CBP does not rely on any single technology or inspection process. Instead, CBP uses various technologies in different combinations to substantially increase the likelihood that a nuclear or radiological weapon or weapons grade material will be detected.

Over the last several years, NII technology has been the cornerstone of our layered strategy. Technologies deployed to our Nation's sea, air and land border POEs include large-scale X-ray and gamma-imaging systems, as well as a variety of portable and handheld technologies, and radiation detection technology.

NII technologies are viewed as force multipliers that enable us to screen or examine a larger portion of the stream of commercial traffic while facilitating the flow of legitimate trade, cargo and passengers. In September of 1996, our first large-scale NII system, a Truck X-ray, became operational in Otay Mesa, California. As of September 30, 2004, we have 155 large-scale NII systems deployed. These systems include the Vehicle and Cargo Inspection System (VACIS), Mobile VACIS, Truck X-ray, Mobile Truck X-ray, Rail VACIS, Mobile Sea Container Examinations Systems, and the Pallet Gamma-ray System.

CBP is deploying nuclear and radiological detection equipment, including personal radiation detectors (PRDs), radiation portal monitors (RPMs) and radiation isotope identifier devices (RIIDs). In combination with our layered enforcement strategy, these tools currently provide CBP with significant capacity to detect nuclear or radiological materials.

Through September 30, 2004, NII technology has been used at the POEs to conduct 9,576,431 examinations, resulting in 3,239 seizures totaling 1,446,107 pounds of narcotics.

CBP has invested over \$400 million in NII technologies. This investment may approach \$1 billion over the next several years to help ensure we are doing everything we can to maximize the use and effectiveness of NII systems. CBP is also pursuing several actions to strengthen the NII training program. The “schoolhouse concept” of having uniform NII training conducted at the CBP Academy and comprehensive refresher image interpretation training—which includes weapons of mass destruction, are some means of strengthening this training.

Preventing Illicit Nuclear or Radiological Weapons or Material From Entering the U.S.

CBP has developed and published a *Comprehensive Strategy to Address the Threat of Nuclear and Radiological Terrorism* to outline a strategic approach to combating nuclear and radiological terrorism. The strategy to strengthen our efforts to combat nuclear and radiological terrorism consists of four layers:

- Countering proliferation of nuclear and radiological materials at the source;
- Controlling the illegal export of weapons, technology, and equipment that leaves our country and its acquisition by terrorists and rogue nations;
- Moving beyond our physical borders to better secure the supply chain abroad;
- Maintaining a secure border at our POEs.

One part of this strategy is to move quickly to deploy Radiation Detection technology at and between our POEs, with the ultimate goal of screening 100 percent of all conveyances, containers, passengers, mail and express consignment packages for radiation. We must accomplish this without impeding the flow of trade into the U.S.

To date, over 10,500 PRDs have been distributed to our POEs and 500 at Border Patrol checkpoints; we have also mandated 100 percent primary coverage by sharing with legacy INS. A total of 281 RPMs have been deployed to POEs, 215 to the Northern Border, 54 to mail and Express Consignment Cargo Facility locations, and 12 to two of the top 22 cargo seaports. In addition, a total of 373 RIIDs have been deployed, and to date, over 2,700 officers have been trained in their use.

International Passenger Programs

As discussed later in greater detail, CBP has made huge advances in preventing terrorism in the passenger venue. The discussion here will only highlight some of those advances.

CBP’s mission of protecting the public from terrorist threats encompasses both the cargo and passenger arenas. Analogous strategies are employed for both environments. Just as in the cargo environment, CBP pursues collection of data on passengers in advance of arrival, through the Passenger Name Record and Advance Passenger Information recording process.

Advance information is critical to our efforts to identify individuals who may pose a security threat. Before September 11, 2001, air carriers transmitted information on international airline passengers in advance of their arrival to the Advance Passenger Information System (APIS) on a purely voluntary basis. Legislation enacted by Congress in late 2001 made submission of this information mandatory. This information is obtained prior to arrival in the U.S. for all passengers, and is transmitted electronically to CBP’s APIS. An informed, enforced, compliance plan instituted by CBP has resulted in 99 percent of all passenger and crew information (including those pre-cleared outside the U.S.) now being transmitted through APIS in a timely and accurate manner. CBP, through its combined customs and immigration authorities, uses advance passenger information to evaluate and determine which arriving passengers pose a potential terrorist risk.

In step with the cargo setting, ATS provides a venue for expeditiously analyzing, cross-referencing and selection of high-risk passengers for exam. This advanced targeting provides CBP a window of opportunity to prepare and address potential threats well before arrival, and in some cases prior to passenger boarding.

Smart Border Accord

An important key to building a smarter border is extending our zone of security beyond our physical borders. CBP has done this on a far-reaching basis by partnering with other countries on our CSI initiative, one of the most significant and successful initiatives developed and implemented after September 11th. We have also done this by partnering with Canada on FAST and the NEXUS program, by expanding programs like SENTRI and FAST on the U.S./Mexico Border, and by partnering with the private-sector with C-TPAT.

CBP has established Smart Border Action Plans, which are cooperative agreements with Canada and Mexico to protect our common borders as well as our shared economic prosperity. The plans provide for additional security personnel to protect our shared borders.

Canada Partnerships

Since the terrorist attacks of September 11, 2001, CBP has worked closely with Canada to develop and implement initiatives that increase security and facilitate travel and trade at our shared 5,000-mile border. Many of these initiatives have been implemented under the Smart Border Declaration entered into between the U.S. and Canada in December 2001. This Declaration focuses on four primary areas: the secure flow of people; the secure flow of goods; investments in common technology and infrastructure to minimize threats and expedite trade; and coordination and information sharing to defend our mutual border. By benchmarking our security measures and sharing information, CBP and Canada are able to relieve pressure and congestion at our mutual land border.

Improving Security On The Northern Border

Progress in FY 2004

In FY 04, the deployment/installation of hardening equipment at the Northern Border has continued strongly. CBP has completed the installation of remote video surveillance equipment and intrusion detection equipment at 30 POEs and two Customs Area Security Centers (CASCs).

Since FY 01, at the Northern Border a total of 61 POEs are hardened and 5 CASCs are installed.

Plans for FY 2005

For FY 05, the plan is to complete all of the Northern Border POEs. This consists of hardening 67 POEs and installing three CASCs.

Challenges

Approximately 4 POEs are scheduled for rebuilding. The total amount of POEs completed in FY 05 will depend on the completion of the construction of the four facilities.

Remote Port of Entry Project

Progress in FY 2004

In FY 04, the Remote Ports of Entry Project (RPEP) was implemented to balance our need for a secure border with the needs of those individuals at remote sites who, to live normal lives, had relied on the RVIS and Form 1 programs to cross the border when the port was unstaffed. RPEPs were implemented at two locations in St. Pamphile and St. Aurelie, Maine.

Plans for FY 2005

In FY 05, an evaluation of the pilot will be conducted to determine whether additional sites will be incorporated into the RPEP.

Partnership with Mexico

CBP has continued important bilateral discussions with Mexico to implement initiatives that will protect our Southern Border (SB) against the terrorist threat, while also improving the flow of legitimate trade and travel. With respect to cargo crossing our border with Mexico, for example, we have implemented the FAST program on the SB in El Paso, Texas. CBP also continues to work on a possible joint system for processing rail shipments and on shared border technology.

Another ambitious cooperative project is the Border Safety Initiative, designed to save lives at the SB and create a safer border environment. Both the U.S. and Mexican governments have reaffirmed their mutual commitment to the Border Safety Initiative and action plan for cooperation on border safety, established in June 2001. Each government has made strides in enhancing its efforts to assist, save and advise migrants of the dangers of the border and especially the dangers associated with alien smugglers. Border Patrol continues to work closely with the Mexican Government on efforts to prevent migrant deaths and strengthen border safety. Border Patrol continues to train and equip Mexican border authorities at federal, state, and local levels. Mexican officers (362) received training and were equipped in search and rescue, aquatic safety, and first responder (medical). For the first time, Border Patrol and Mexican authorities have agreed to develop an operational summer plan to address border safety in the high-risk area of Arizona-Sonora.

US-VISIT

Another border-related program that is currently being implemented, and that will rely on sophisticated technology and quick access to critical data, is the recently announced US-VISIT program. Under this program, DHS will implement a number of legislative requirements related to the entry and exit of visitors to the U.S. Once implemented, US-VISIT will provide CBP personnel with the capability to use biometric features such as fingerprints, photographs, or iris scans to identify accurately people that are traveling into and out of the U.S. In this way, US-VISIT will strengthen and increase the reliability of our terrorist and other database checks on such individuals when they enter and exit the U.S. As Secretary Ridge announced, US-VISIT was implemented at airports and seaports in January 2004.

Coordinated National Targeting

National Targeting Center

Historically, legacy U.S. Customs Service (Customs) successfully targeted for narcotics and currency violations in both the passenger and trade environments. Immediately following the terrorist attacks on September 11, 2001, Customs adapted its targeting methodology for anti-terrorist and national security concerns. Recognizing the scope of the threat, Customs created a National Targeting Center (NTC), formally known as Office of Border Security. The NTC is within OFO under the Executive Director for National Targeting and Security.

NTC began around the clock operations on November 10, 2001, with a primary mission of providing tactical targeting and analytical research support for Customs anti-terrorism efforts. As border inspectional assets from Customs, the INS, and the USDA came together on March 1, 2003, under the umbrella of CBP, the NTC mission broadened commensurately with the CBP role in support of Homeland Security. The NTC is the centralized coordination point for all of CBP's anti-terrorism efforts. Utilizing sophisticated targeting methodology it analyzes, screens, and targets for intensive anti-terrorism inspection all passengers and cargo before arrival in the United States.

CBP officers and field analysis specialists who are experts in passenger and cargo targeting on air, sea, and land operations in the inbound and outbound environments primarily staff NTC. Under the guidance of a Watch Commander, the NTC staff develops tactical targets from raw intelligence in support

of the CBP mission to detect and prevent terrorists and terrorist weapons from entering the United States. NTC also supports CBP field elements, including CSI initiative personnel stationed in countries throughout the world, with additional research assets for passenger and cargo examinations.

The NTC facility accommodates representatives from all CBP disciplines, including representatives from the Office of Border Patrol, the Office of Intelligence, and the Office of Information and Technology, as well as liaison with the USCG via an exchange of personnel, and has also fostered liaisons with the Transportation Security Administration, the Department of Energy, Immigration and Customs Enforcement and provided targeting expertise to the DHS Operations Center. During FY 04, the NTC incorporated Food and Drug Administration's (FDA) Prior Notice Center, and CBP's Laboratory and Scientific Services. The addition of these resources has strategically enhanced U.S. detection and deterrent capabilities by extending them into bio-terrorism prevention and rapid radiological assessments. Working together with CBP partners within DHS and beyond, the NTC mission continues to evolve as a cornerstone in the war on terrorism. Centralized NTC targeting endeavors, combined with intra and interagency collaboration, assure CBP of a coordinated response to terrorist and national security events.

Office of Intelligence (OINT)

During FY 04, OINT continued to develop a dynamic intelligence program that focused on supporting front line CBP units in detecting and deterring terrorists and the movement of their weapons. The Executive Director, OINT continued to provide to senior managers' daily intelligence briefings. The Executive Director also provided in-depth intelligence briefings to senior field managers relative to threat streams that have been developing since February 2004. In addition, the Executive Director hosted an update briefing for the executive staff and senior field managers presented by the intelligence community.

On a daily basis, OINT analysts reviewed approximately 2,000 documents containing terrorism intelligence, and during the fiscal year, produced over 400 intelligence alerts. Analysts also produced 187 Homeland Security Intelligence Reports, which were distributed to the field and to DHS, for further dissemination.

OINT analysts collaborated with OFO personnel to develop Intelligence Driven Special Operations (IDSOs) based on current intelligence threat information. As a result, during this fiscal year 24 IDSOs were implemented. These IDSOs



CBP officer examines incoming conveyance.

key DoD counterterrorism intelligence fusion centers, in order to further support the CBP mission.

OINT continues to aggressively engage the Intelligence Community. In FY 04, an analyst from the Central Intelligence Agency (CIA) was detailed to OINT. A representative from the National Security Agency (NSA) was also assigned to OINT. In addition, OINT had Senior Intelligence Analysts detailed to the Border and Transportation Security (BTS); Information Analysis and Infrastructure Protection (IA/IP); the Federal Bureau of Investigation (FBI) 2004 Threat Task Force; the FBI National Joint Terrorist Task Force and the CIA Counter Terrorism Center. During FY 04, analysts were also detailed to the National Counter Terrorism Center (NCTC) and the Terrorist Screening Center (TSC).

provide for very focused targeting in response to both specific and general intelligence trends.

OINT analysts also assisted OFO Automated Targeting System - Passenger (ATS-P) rule developers in translating intelligence into rules that could be used to enhance the existing ATS-P rule base. This effort has resulted in the identification of suspect individuals who might not otherwise have been identified, and resulted in the denial of admission to individuals attempting to enter the country under false pretenses.

The OINT continues to be fully engaged in supporting major CBP Counterterrorism initiatives such as the CSI and the C-TPAT. OINT analysts are part of the initial teams that negotiate the agreements with our foreign counterparts in setting up the CSI program in their country. The analysts produced country threat assessments in support of U.S. goals in preventing weapons of mass destruction from entering the United States. They have been instrumental this past year in the recruitment, selection, and preparation of intelligence officers soon to be deployed on long-term overseas assignments with CSI. They have also actively participated in the formulation of projected operational plans for CSI, and have worked closely with OTD in the preparation of counterterrorism instructional material.

The OINT continued its outreach to international partners particularly in locations such as the United Kingdom, Canada, Australia, and New Zealand. In FY 04, Singapore was added to the list of international partners. The outreach has resulted in more information being exchanged and a greater, multilateral awareness of and response to the threat of global terrorism. OINT has also established a plan for the creation of Regional Intelligence Officer positions to be located in



Border Patrol marine officers patrol the waters.

Preventing Terrorism Between the Ports of Entry

Preventing Terrorism Between the Ports of Entry

Goal: Strengthen our control of the borders between the ports of entry to prevent the illegal entry of terrorists, terrorist weapons, contraband, and illegal aliens into the United States.

Overview

The Border Patrol has enjoyed a long and legendary mission of patrolling the border between the official ports of entry. It has always had a firm commitment to provide and enhance border security. The Border Patrol was established in 1924 with an initial force of 450 Patrol Inspectors. During the Border Patrol's 80-year history, its agents have worked hard to deter, detect, and prevent the illegal entry of aliens and the smuggling of contraband into the United States.

Today, the mission of the Border Patrol is more important than ever. More than 11,000 men and women of the Border Patrol continue to serve our country with honor, pride, and professionalism. Since the Border Patrol became part of CBP, its mission has been modified. Now, the priority mission of the Border Patrol is to detect and interdict terrorists and weapons of terror while retaining traditional missions. The Border Patrol's function has been, and will continue to be, critical to our Nation's security.

Challenges

OBP's strategic goal is to establish and maintain operational control of U.S. borders by detecting, responding to, and interdicting border penetrations in areas deemed high priority due to their threat potential and in accordance with other national security objectives. To achieve this goal, OBP has established a national strategy that consists of five objectives:

- Establish substantial probability of apprehending terrorists attempting to illegally enter between ports of entry.
- Deter illegal entries through improved enforcement.
- Detect, apprehend, and deter smugglers of humans, drugs, and other contraband.
- Leverage "Smart Border" technology to multiply the effect of enforcement personnel.

- Reduce crime in border communities and consequently improve quality of life and economic vitality of targeted areas.

The focus on these five strategic Border Patrol objectives is critical and must remain at the forefront of planning throughout the agency.

Operations, Support, Intelligence, and Technology

An effective border enforcement strategy requires a mixture of personnel and resources, as well as a wide variety of enforcement activities, to be effective. The required resources (personnel, aircraft, marine units, technology, special initiatives, and tactical infrastructure) of a border enforcement system must be deployed in a balanced manner to complement the proactive national strategy. Specific training has been developed for all Border Patrol agents in the detection of terrorists and terrorist weapons. In addition, the Border Patrol Academy continues its tradition of providing the best possible training to its new trainee agents. The OBP utilizes a variety of programs and initiatives to support these strategic objectives.

Unmanned Aerial Vehicle (UAVs): UAVs were evaluated for their potential use in securing the borders of the United States by providing operational support in the Arizona Border Control Initiative (ABCI) Pilot Program. The OBP provided UAV support for ABCI from June 18 to September 30, 2004 and was the first law enforcement Federal agency to fly UAVs on a sustained basis, outside of controlled airspace, within the United States.

Since the start of operations, UAVs have flown a total of 590.1 hours. In that time, they were instrumental in the apprehension of 965 undocumented aliens, which led to the seizure of 843 pounds of marijuana, and the recovery of two stolen vehicles.



The Air Support unit provides invaluable assistance to Border Patrol on the ground for both operations and rescues.

The UAV's have proven effective in locating subjects during the hours of darkness and providing a situational awareness and officer safety capability that is unparalleled. Used in conjunction with ground based sensors, they can fly to areas of sensor activity, spot the cause of the activation, maintain surveillance, and determine the amount and type of resources necessary to apprehend suspects. They are able to direct ground agents and manned aviation resources (such as a pilot and aerial observer, or an air-mobile enforcement response platform) to a target, and once hand-over is complete, respond to other requests for assistance. An additional advantage is that UAVs are able to remain on station well after a group is arrested to report on the subsequent movement of those who absconded.

The CBP UAV feasibility study will continue through FY 05.

Northern Border Buildup

Another way that the Border Patrol has been working to increase the probability of apprehending terrorists and their weapons is by increasing staffing efforts on the northern border. During the last two years, the Border Patrol has effectively tripled the personnel assigned to northern border sectors to over 1,000 agents. In doing this, the Border Patrol has become "proactive" in its enforcement strategy. As with the southwest border, the proper balance in the deployment of personnel, equipment, technology, and infrastructure is critical. The Border Patrol will continue to increase liaison and intelligence sharing—both key elements of the northern border strategy, with other Federal, state and local law enforcement, our Canadian government counterparts, and the intelligence community.

In addition, remote video surveillance cameras have been deployed or additional rotary-wing assets have been added to the northern border sectors.

Operation Ironclad

Checkpoint operations have historically proven to be a reliable means of deterring illegal entry and smuggling of aliens and contraband by providing a second tier of law enforcement. Checkpoints continue to support Border Patrol operations along the southwest and northern border. In order to increase the probability of apprehending terrorists and their weapons, Operation Ironclad went into effect in FY 04. The primary purpose of this operation is to support enhanced national security efforts in order to deter and detect further attacks against American and U.S. interests.

Agents assigned to conduct these operations maintain a heightened level of vigilance geared toward the potential of terrorist activity. In this program, additional checkpoint operations are conducted at selected, strategic locations on the basis of intelligence and threat analysis. These checkpoint operations are conducted at temporary and fixed/permanent locations along both the northern and southwest border.

Shortly after Operation Ironclad was implemented, Operation Winter Freeze began. Operation Winter Freeze employed the Border Patrol Tactical Unit (BORTAC), a highly specialized trained national tactical unit, to support the Ironclad Operation. In Operation Winter Freeze, BORTAC agents also detailed to work checkpoint operations along the northern border. Line agents replaced the BORTAC agents in February 2004. Operation Winter Freeze remains in effect.

Arizona Border Control Initiative (ABCI)

As part of OBP's national strategic plan, new and innovative initiatives were incorporated to enhance enforcement efforts in securing our nation's border. On March 16, 2004, DHS's BTS Directorate announced the start of the ABCI in the Tucson Sector Border Patrol's area of operation.

The ABCI is a multi-phase program in which BTS agencies in Arizona collaboratively achieve operational control of the Arizona border in support of the priority mission of anti-terrorism and the detection, arrest, prosecution, and deterrence of all cross-border illicit trafficking. These agencies, in a cooperative effort, significantly impair the ability of smuggling organizations to operate in Arizona, thereby reducing the effects of illegal smuggling on the communities of Arizona and the United States. The BTS agencies in Arizona

close smuggling corridors that also serve as potential entry avenues for terrorists and other risks to national security.

The BTS Under Secretary Asa Hutchinson, in his directive memorandum, delineated three primary goals for ABCI:

- Achieve operational control of the Arizona border and support of the priority mission of anti-terrorism, detection, arrest, and deterrence of all cross-border illicit trafficking.
- Significantly impair the ability of the smuggling organizations to operate.
- Decrease the rate of violent crime and reduce the need for social services in southern Arizona.

In order to accomplish these goals, OBP reassigned 200 journeyman agents to the Tucson Border Patrol Sector, integrated the use of UAVs in high threat areas, and added 60 additional Border Patrol Agents who are specially trained in search, rescue, and remote tactical operations. As the initiative progresses through its operational phases, additional assets will be assigned to the Yuma Border Patrol Sector, increased air support missions will be established, and investigative components from ICE will be enhanced. The ABCI is the result of unprecedented, concerted effort between Federal, state, and local agencies, as well as the government of Mexico, to work harmoniously to accomplish these goals.

International Role of the Border Patrol – Pushing Borders Outward

Today, more than ever, the Border Patrol realizes the importance of pushing our zone of security outward. This is the “extended border,” defense-in-depth concept, that DHS Secretary Tom Ridge has aptly called a “SmartBorder” strategy. This concept is intended to recognize potential



Unmanned arial vehicle under Arizona Border Control Initiative.

threats in an attempt to defend our homeland prior to the threat actually arriving at the border area.

Several programs have been put in place to bring this concept to reality. These programs include the Border Patrol Liaison Program, Operation Honduras, and the Border Safety Initiative (BSI).

Border Patrol Liaison Program: OBP has historically realized the importance of good working relationships with foreign and domestic entities. For this reason the Border Patrol Liaison Program (BPLP) was developed and implemented in 2004. The primary objective of the BPLP is to establish and maintain programs in every Border Patrol Sector that create a partnership with foreign and domestic entities from all levels of government. This partnership will help identify common issues and concerns while proactively seeking solutions, to the mutual benefit of all parties, ensuring uniformity throughout the country. This program, although still in its initial stages, will continue to be a very important part of our overall mission of preventing the entry of terrorists and their weapons and help enforce the laws that protect America’s homeland.

The BPLP is the overall umbrella that covers several efforts that focus on the BSI, International Training, Joint Enforcement Measures, International and Local Investigations, and Intelligence Sharing. Border Patrol Agents assigned to the BPLP also address security concerns and emergency contingencies and serve as advisors to Senior Staff at their respective Sectors regarding border/local liaison affairs.

Through this program and other operational initiatives, OBP has become an ambassador to many countries by providing training in land border interdiction, maritime operations, and seaport interdiction. In 2004, OBP provided training and assistance to Saudi Arabia, Kyrgyz, Honduras, Jordan, Monte Negro, Croatia, Bulgaria, and Botswana. This type of



Whether it is a passenger or commercial trucking checkpoint, CBP Border Patrol agents are there to protect between our nation's borders.



operation has allowed OBP to establish and maintain working relationships with these countries. Effective foreign liaison can significantly bolster the fight against terrorism.

Honduras Operation: During FY 04, agents from BORTAC coordinated through the Department of State to conduct training and act in advisory-role duties throughout the country of Honduras. BORTAC agents have been deployed to support the International Narcotics and Law (INL) Enforcement Office and provide support in aiding the Policia De Fronteras (PDF) personnel conducting normal day-to-day operations at stations located throughout Honduras.

The PDF have minimal equipment, facility, communication, and transportation support while deployed at remote stations along the Nicaragua, El Salvador, and Guatemala borders. BORTAC personnel are currently deploying to these locations in advisory role positions to provide support in conducting day-to-day station operations and tactical operations driven by actionable intelligence. These operations include basic patrolling, interdictions, checkpoint operations, and actionable intelligence based operational planning.

Future focus will be concentrated on maritime operational preparedness relating to the Golfo de Fonseca area and the Caribbean Coast.

The Border Safety Initiative

The primary objective of the Border Safety Initiative (BSI) is the reduction of injuries and prevention of deaths in the southwest border region and the creation of a safer border environment. The BSI was implemented in June 1998 building on longstanding public safety and humanitarian measures practiced by the Office of Border Patrol (OBP). Over the past several years, unscrupulous alien smugglers have moved migrants into more remote areas with hazardous terrain and extreme conditions. In particular, the BSI is intended to educate and inform potential migrants of the hazards of crossing the border illegally and to respond to those who are in life-threatening situations.

The BSI is designed to complement the Border Patrol National Strategy. The BSI focuses on the areas of: Prevention – Preventing entries through hazardous areas; Search and

Rescue – Maintaining and expanding search and rescue capabilities; Identification – Identifying deceased migrants for family notification; and Tracking and Recording – Collecting related BSI data (migrant deaths and Border Patrol rescues) for reporting and analysis.

Border Security and Management is the foundation for border safety and BSI continues to be the conduit through which the United States Government and the Government of Mexico humanitarian principles are explored and advanced. BSI aids in furthering our efforts and accomplishing the tasks set out under the various bi-national agreements such as the 2004 US-Mexico Action Plan for Cooperation and Border Safety.

Border Patrol Search Trauma and Rescue Teams (BORSTAR)

The Border Patrol has identified and maintained programs to promote safe borders and deterrence of alien smuggling. These initiatives relate directly to the partnership and cooperative agreements made with Mexico under the Border Safety Initiative (BSI). BORSTARs have been created throughout the Border Patrol.

BORSTAR is built upon the longstanding practices of the CBP Border Patrol to provide aid to those in distress. The BORSTAR concept was formally initiated in 1998 as part of the bi-national BSI and continues to function in support of that initiative. More than 8,000 undocumented migrants have been rescued in the last 6 years.

Last year, our BORSTAR units trained 387 Mexican officers in Search and Rescue, Aquatic Safety, and First Responder (medical) training. BORSTAR units will also be providing training to the GoM in order to assist them in developing a Mexican version of our BORSTAR teams. In addition, our Mexican Liaison Units will continue daily interactions with the GoM on border safety and law enforcement issues.

During 2004, enhancements in the Tucson Sector included detailing special operation agents from BORSTAR and the Border Patrol Tactical Team (BORTAC) in support of the Arizona Border Control Initiative (ABCI). Other accomplishments included

- Strategic placement of 20 rescue beacons deployed to Tucson
- Established a new Horse Patrol unit to patrol the West Desert Corridor area



Various methods of mobility are important for Border Patrol operations.

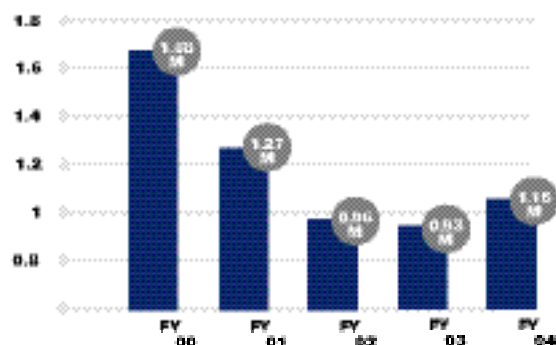
- Established a Border Safety Aid Station in the Tohono O'odham Reservation
- Implemented the Interior Repatriation program in July of 2004

Summary

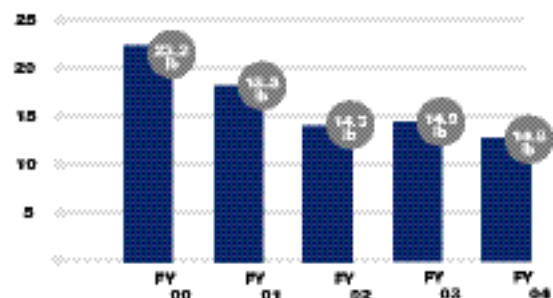
The national strategy requires increasing our national security by augmenting enforcement resources along the northern and southern border, and along the coastal waterways. The proper balance in the deployment of personnel, equipment, intelligence, support, technology, and infrastructure is critical. Reducing our vulnerability to the entry of terrorists, illegal aliens and drugs by increasing personnel and resources, is the key to the successful implementation of this strategy. In doing this, CBP as a whole, and the Border Patrol within CBP, seek to be "proactive" in its enforcement strategy. This strategy is built upon interagency and international cooperation and coordination, effective technology, and innovative resource allocation. The national strategy is the "Roadmap" to strengthening control of the U.S. Borders.

Statistics provided by the Performance Analysis System, October 1, 2003 through August 31, 2004

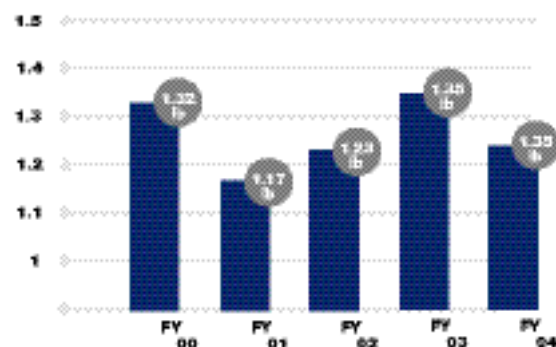
Apprehensions in Millions



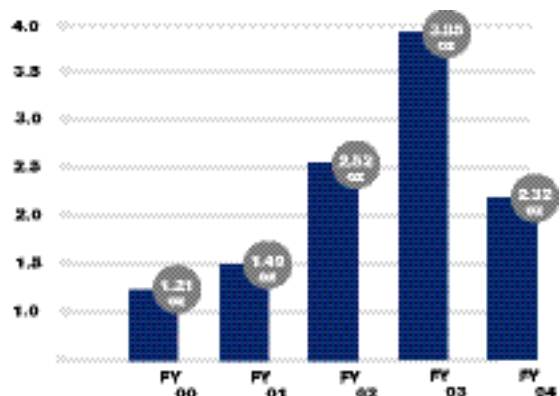
Cocaine in Thousands (Pounds)



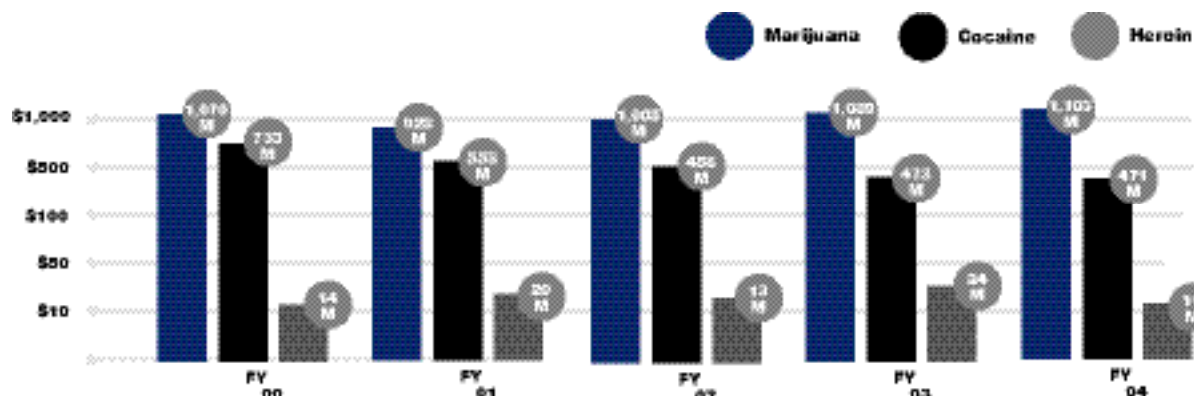
Marijuana in Millions (Pounds)



Heroin in Thousands (Ounces)



Monetary Value of Marijuana, Cocaine, Heroin Seized in Millions





We stand together as “One Face at the Border”.

Unifying As One Border Agency

Unifying As One Border Agency

“At CBP, we are creating what Secretary Ridge has called “One Face at the Border” — One unified border agency for the Department of Homeland Security to manage, control, and protect our Nation’s borders.”

Robert C. Bonner

Commissioner

Department of Homeland Security Deputy Secretary Admiral James M. Loy, along with CBP Deputy Commissioner Deborah Spero, present the first DHS law enforcement badges and administer the oath of office to members of the frontline CBP officers corps in Newark, NJ.



CBP has achieved significant milestones since March of 2003 when the agency was created under the DHS. The establishment of CBP, with over 40,000 employees from four agencies and three departments of government, represented a merger of historic proportions. In fact, it was the largest merger of people and functions within DHS. CBP was formed with the objective of creating one single, unified border management agency for the United States—one agency to serve and protect our nation’s borders at and between the official ports of entry.

In the months since its creation, CBP moved from a combination of disparate and separate components to a single, integrated border management agency. We achieved Secretary Ridge’s vision of “One Face at the Border,” a unified workforce of men and women who manage, secure and protect our Nation’s borders. The concept of “One Face at the Border” is integral to CBP’s priority mission—detecting and preventing terrorists and terrorist weapons from entering the United States—as well as to our traditional mission of facilitating the orderly and efficient flow of legitimate trade and travel. Throughout 2004, CBP worked to build a cohesive team with the knowledge and skills necessary to effectively enforce and uphold our country’s laws and secure our borders.

A Unified Force

To create “One Face At The Border,” CBP needed to unify and integrate our operations and our workforce. Nowhere was unification more critical than at the POEs, where 20,000 Customs, Immigration, and Agriculture inspectors joined together to carry out CBP’s priority and traditional missions. To unify the inspector workforce at the POEs, CBP established a new frontline team—the CBP Officer and CBP Agriculture Specialist. In April 2004, former Agriculture Inspectors became CBP Agriculture Specialists and in July, all former Customs and Immigration Inspectors were converted to the CBP Officer position with a new series, new title, and new job description. The two occupational groups have been unified under a single compensation system for overtime and premium pay, ensuring efficient and equitable assignment of work and compensation. Today, CBP Officers and CBP Agriculture Specialists are our frontline team at all of our Nation’s ports of entry and pre-clearance locations.

A significant milestone in our unification of the CBP frontline team at the ports of entry was the establishment of “COPRA” as the single overtime and premium pay system for CBP Officers and CBP Agriculture Specialists. This was accomplished pursuant to a final rule issued in June 2004. This enabled us to fully implement the CBP Officer concept.

With this change, CBP Officers and CBP Agriculture Specialists could be unified under a single compensation system, ensuring efficient and equitable assignment of work and compensation.

CBP Border Patrol Agents make up CBP's frontline force between the ports of entry, patrolling more than 6,000 miles of border between the United States and Mexico and Canada. They are an integral part of CBP's officer corps and are the sole law-enforcement officers with the tremendous responsibility of protecting the homeland from terrorists and terrorist weapons between the ports of entry.

CBP is the face of the U.S. government to the international traveling public and trade. During 2004, all inspectional officers received new uniforms and new patches. New badges—the first DHS law enforcement badges—were issued to CBP Officers and CBP Agriculture Specialists in ceremonies conducted across the country. The new homeland security badge for CBP employees is the visible, unifying symbol of the entire CBP frontline workforce, and represents our commitment to preserve and protect our great Nation and the values we hold dear. It symbolizes the responsibility that all CBP employees have to safeguard our borders against the very real threat of terrorism.

Talent at Work

CBP Officers, CBP Agriculture Specialists, and CBP Border Patrol Agents today are better prepared than at any time in the past to meet the challenges of securing our nation's borders. They are receiving unprecedented, comprehensive and state-of-the-art training that enables them to carry out CBP's critical homeland security mission.

CBP has made, and continues to make, a significant commitment to the training and development of its employees—the men and women who serve and protect our nation's borders. In FY 04 alone, CBP has invested over 250,000 staff days to train frontline officers to meet CBP's primary anti-terrorism mission and its traditional missions. This significant investment in CBP's frontline workforce has been achieved, and is continuing, without any interruption in the agency's ability to manage and secure our nation's borders.

CBP developed and implemented a new basic training curriculum for new CBP Officers. They attend over 70 days of training at the Federal Law Enforcement Training Center (CBP Academy) in Glynco, Georgia. The new basic training curriculum provides important knowledge and skills needed



A CBP officer verifies the proper documentation for a traveler.

to perform the duties of this critical frontline officer position. Over 1,600 new CBP Officers graduated in FY 04.

In conjunction with the USDA APHIS, CBP developed a new CBP Agriculture Specialist academy course. This training is conducted at USDA's Professional Development Center in Frederick, Maryland. CBP and USDA worked closely together to develop a comprehensive, state-of-the-art curriculum that includes 43 days of rigorous and challenging training on a variety of complex agricultural topics, including agricultural regulatory decision-making, pest identification, and safeguarding procedures. The first class of CBP Agriculture Specialists graduated in July 2004.

CBP frontline officers completed cross-functional and anti-terrorism training, including:

- Counter Terrorism Airport Primary Training
- Counter Terrorism Cruise Ship Primary Training
- Anti-Terrorism Passenger
- Bio-Terrorism
- Counter Terrorism Response
- Passenger Analysis Unit Training
- Counter Terrorism Response Rover Training
- Fraudulent Document Detection

Additionally, Border Patrol Agents received Anti-Terrorism training in terrorist threats and trends, high-risk vehicle indicators, foreign terrorist entry methods, weapons of mass destruction, vehicle and cargo inspection, and sea cargo targeting.

CBP's frontline officers represent the best qualities of homeland security law enforcement: vigilance, integrity, and professionalism. As "One Face at the Border," we are building on strong traditions, but we are also forging a new tradition—a tradition of total professionalism and excellence.



CBP officer checks a traveler's bag.

Balancing Legitimate Trade and Travel with Security

Balancing Legitimate Trade and Travel with Security

Goal: To achieve more efficient movement of legitimate cargo and people while safeguarding the border and the security of the United States.

Overview

The priority mission for CBP is homeland security: to deter and prevent terrorists and weapons of terrorism from entering the United States.

At the same time, CBP continues to carry out the traditional missions of the predecessor agencies that make up CBP. In the areas of facilitating trade and passenger travel, these traditional missions include:

- determining the admissibility of people and goods;
- administering the laws and regulations governing international trade;
- collecting duties, taxes, fees, fines, and penalties;
- enforcing the U.S. laws applicable at entry for persons and goods;
- intercepting inadmissible people and goods, and applying appropriate sanctions;
- deploying selectivity techniques and technology to separate high risk from low risk people and commercial entries, then expediting low risk groups.

Challenges

A very high and increasing volume of travelers and goods entering the United States strain our facilities, systems, and staff, making it imperative to work smarter and automate as many of the tasks as possible.

The complexity of our CBP mission took a quantum leap with the merger of three former inspections agencies. Our officers now do agricultural, immigration, and customs inspection, as well as carry out their legacy agencies' laws that CBP enforces at the border, such as Public Health and Immigration and Customs Enforcement. A further complexity is that with the threat of terrorism at a high level, the importance of doing the job right every time is also high.

Trade Facilitation

Partnership with the International Trade Community

CBP engages the entire breadth of the international trade and transportation communities in productive partnerships that provide a forum to exchange ideas and share experience. This engagement allows the private sector to provide input into legal, operational and policy concerns and CBP to incorporate feedback from the private sector into key initiatives. CBP-industry partnerships have produced vital programs that enhance national security while facilitating legitimate commerce.

Regulations Supporting CBP Border Security Initiatives Trade Act Regulations (Section 343).

In December 2003, CBP published the final rule mandating electronic transmission to CBP of cargo information for merchandise arriving and departing the United States before such arrival or departure. This rule was issued under the authority of the Trade Act of 2002, which imposed a deadline on the rule's issuance and required the agency to consult with the public in the development of the rule. OR&R led the multi-disciplinary team that developed and drafted the rule.

Innovations to Enhance Delivery of Services

Electronic Rulings (eRulings) Program

The Electronic Binding Rulings Program constitutes an important process improvement in the issuance of rulings by the National Commodity Specialist Division (NCSO) in N.Y. It utilizes technology to improve the efficiency, effectiveness and cost of CBP operations. Electronic rulings provide the public with information, essential to making sound business and economic decisions, in the fastest time possible. In addition, both the public and the government benefit from the elimination of expenses for postage and handling, coupled with the added safety of handling less mail. Nearly 900 electronic rulings have been processed under the e-rulings system.

To begin migration beyond simple use of email messages, in FY 04, the NCSO created a web-based "eRuling Template" which is available on the CBP website, to encourage requesters to supply all necessary information without the delays that can result from the receipt of incomplete information. This template, initially designed to be used as an email attachment, is now being upgraded by OIT to enable requests to be filed and receipted directly on the CBP website, without the use of email.

In addition, a link between the ACE Portal and the eRulings template is being added to the web.

QUICS

QUICS (Quality and Uniformity Information Control System) is currently a simple email-based mechanism for exchanging information between National Import Specialists and Field Import Specialists on various issues including classification, value, origin, and marking of imported merchandise, and for providing those messages to all CBP users in a searchable database.

Over the last year, with the CBP Website Team, NCSO/OR&R has pursued development of a more sophisticated web-based version of QUICS. This version will simplify exchange of messages, enable complex searches, and provide the potential for responding to the full range of issues handled by OR&R, both in N.Y. and at headquarters (HQ). When implemented, it will also incorporate all messages generated by the earlier version of QUICS.

The e-mail-based version has been operating since April of 2002 and has produced approximately 4,000 messages. In August of 2004, with the ports of Blaine and Savannah, NCSO/OR&R tested a working prototype of the new web-based QUICS. With changes based on the useful feedback received in that test, the new system is expected to be available early in FY 05.

Volume is expected to increase significantly once the web-based version is adopted, not only because many questions now handled in more informal e-mail messages will be incorporated into the new system, but also because the new QUICS will enable exchanges on many issues not addressed in the current QUICS.

Intellectual Property Rights Web Tools

OR&R enhanced business process systems to facilitate CBP's enforcement of IPR. In order to assist CBP officers in detecting and interdicting the importation of IPR infringing goods, OR&R developed several web-based tools in FY 04 located on CBP's Intranet:

- **"IPR Page"**: This resource, accessible by CBP employees only, provides officers with complete access to information about CBP's policies and procedures concerning IPR enforcement as well as direct access to OR&R attorneys for assistance in making infringement determinations. It is anticipated that this new resource will streamline and improve CBP officers' ability to effect sustainable enforcement actions while reducing the risk of adverse litigation stemming from ill-advised CBP IPR detentions, seizures, forfeitures, and penalty assessments.
- **"IPR Advisors e-Library"**: This provides CBP officers with examples of IPR infringement determinations issued by CBP's IPR Branch. This library, which is fully key-word searchable, assists officers by allowing them to apply prior decisions on certain goods to future importations of goods involving the same or similar violations. In addition, this page allows CBP officers to obtain direct assistance of IPR Branch attorneys, via email link, on prospective IPR enforcement actions.

- **“IPR Alerts”**: In order to more effectively target potential IPR violations consistent with resource constraints, OR&R’s IPR Branch, in coordination with OST’s Los Angeles Strategic Trade Center (LA-STC), developed “IPR Alerts” as a way to process incoming infringement allegations and improve the administration of national criteria input and targeting. IPR Alerts, which constitute findings of infringement incident to allegations submitted by rights owners, are both submitted to the LA-STC for criteria development and targeting and posted to the CBP net intranet IPR page for use by CBP officers in the field.
- **“IPRS” Implementation**: Intellectual Property Rights Search represents a complete overhaul of the former IPR Customs Electronic Bulletin Board, which housed public versions of more than 22,000 IPR recordations. Prior to the introduction of IPRS, public versions of CBP IPR recordations had been available, but were housed in an antiquated database, based on outdated computer programs, that delivered inaccurate and unreliable search results. OR&R worked closely with OIT to redesign and implement this new public recordation database. IPRS is very similar in form to CBP’s CROSS rulings database in that it offers an improved, easily navigable interface and returns extremely accurate search results.

International Outreach

Advice to Foreign Governments

In FY 04, CBP regularly provided technical assistance to the World Customs Organization (WCO) and to the World Trade Organization (WTO) by serving as Delegates to the Harmonized System Committee and Technical Committee on Customs Valuation, as Chair to the Technical Valuation Committee, and by participating in the work of the WCO IPR strategic group. In addition, this fiscal year, CBP provided technical assistance and formal training to officials of a great number of countries on such matters as tariff classification, country of origin, marking, quotas, duty preferences, customs valuation, and IPR.

Free Trade Negotiations

OR&R led multidiscipline CBP teams in providing technical assistance to the U.S. Trade Representative during negotiations of the Customs Procedures, Rules of Origin and Market Access provisions of an unprecedented number of trade agreements.

ACE Development

Trade Support Network (TSN)

In FY 04, OFO Trade Compliance and Facilitation (TCF) was an active participant in the TSN, providing co-chairs to some of the larger committees, including the Entry, Drawback, and Accounts Committees. OFO TCF decides CBP policy for all operational issues tied to ACE. As a result of the Drawback TSN, an agreement to simplify the drawback process was developed and a rewrite of the drawback statute has been initiated.

In FY 04, OR&R continued as a major participant in the Trade Support Network (TSN), which is in partnership with the e-Customs Partnership (eCp) and trade representatives. The TSN was established to develop the legal and operational changes needed to modernize CBP operations in conjunction with ACE. OR&R has made long-term commitments with senior staff attorneys to the various committees involving carrier, broker and importer accounts, entry processing, cargo manifesting and release, revenue, e-bonds, bonded warehouses, foreign trade zones and drawback. A senior OR&R attorney is the co-chair of the TSN Legal/Policy Committee. Both the trade and other CBP offices have expressed appreciation and support for OR&R’s participation in the TSN.

ACE Releases 3 and 4

In FY 04, OR&R prepared the Federal Register Notice (FRN) announcing ACE Releases 3 and 4. ACE Release 3 implements periodic payment of estimated duties and fees on a monthly basis (rather than 10 working days after the filing of each entry) in compliance with the provisions of 19 USC 1505. ACE Release 4 will implement the first electronic truck manifest system involving both advance electronic cargo information and cargo release.

In FY 04, OFO TCF played a pivotal role in Release 3, Periodic Monthly Statement (PMS). TCF ensured that ACE Accounts were properly reviewed prior to being accepted to participate in PMS and coordinated the training of CBP employees to ensure that PMS was successfully executed.



To effectively search cargo, a CBP officer needs the right tools.

Timely Tools to the Trade For Informed Compliance

Continued Timely Issuance of Prospective Rulings

OR&R continues to view the timely issuance of rulings to prospective importers as an Office priority that is crucial to expediting the entry and clearance of legitimate cargo. This is particularly important to the importing community during this time of increased security regulations and tight scrutiny throughout the supply chain.

In FY 02, OR&R cleaned up a backlog of HQ ruling requests over 90 days old in less than one year. In FY 04, OR&R has maintained the 90-day maximum turnaround time for HQ prospective rulings to importers, with HQ days in processing averaging 70 days. In addition, OR&R even improved on the already short 30-day maximum turnaround time for NY rulings, with the processing days for NY rulings averaging less than 20 days in FY 04.

Analysis of Performance

Overall Impact Statistics

FY 04 Total Value of Imports: \$1.41 trillion

FY 04 Total Entry Summary Count: 28.1 million

FY 04 Duty Collection: \$25.7 billion

FY 04 Consignees (number): 754,000

Compliance Measurement

The Compliance Measurement (CM) Program, initiated in FY 95, collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and estimates the revenue gap. CM data is also used in risk management decisions to identify high-risk areas and measure the effectiveness of actions taken to improve compliance in those areas.

From FY 98 through FY 01, the overall trade compliance rate improved significantly, rising from 89 percent to 91 percent. With overall compliance at a high level, legacy Customs began to emphasize matters of significant trade risk.

Further Development of the ACE Portal

OR&R participated in the drafting of a revised Terms and Conditions Document for the ACE Portal, a significant enhancement protecting against improper dissemination of information in violation of the Trade Secrets Act. As ACE moves forward, a key aspect is access through versions of the ACE Portal by all users including importers, exporters, brokers, carriers, trade attorneys, freight forwarders, truckers, etc., and authorized members of public. The Terms and Conditions Document resolved the problem that resulted from providing computer access to the Trade Secret information maintained in several ACE databases. The document provides a trade entity with the ability to assign and control access to information in ACE provided by, or on behalf of, that entity. CBP does not need separate authorizations for each instance of access and is held harmless if a party wrongfully disseminates information obtained through ACE. Access to the information through an ACE Portal for the public is only possible upon acceptance of the Terms & Conditions Document.

In FY 04, Account Managers continued to recruit and encourage importers and brokers to participate in ACE. Account managers also reviewed the system for user-friendliness and its ability to support interactions with accounts. Account Managers worked with participating accounts in information setup, training, and evaluation of the portal.

The CM Program was temporarily suspended following the September 11, 2001 terrorist attacks, when the majority of inspection resources were directed to address security concerns. Program suspension continued for most of FY 02, due to the uncertainty of perceived terrorist threats. FY 02 also marked a transition period for CM in developing methodological details to incorporate security issues into its data gathering effort.

Recognizing the important role it plays in risk management, as well as in security assessment, the CM program was fully restored for FY 03. The overall trade compliance rate for FY 03 was 93 percent.

In FY 04, CM exam report requirements were expanded to capture data pertaining to the 24-Hour Advance Manifest law and, in addition, to report on mismatches between bill of lading and entry summary data. The overall trade compliance rate for FY 04 was 94 percent.

CBP has also calculated the FY 04 revenue gap to be \$265 million. The revenue gap is a calculated estimate that measures our potential loss of revenue due to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement exams conducted throughout the year.

Strategic Trade Activities

CBP has worked to develop a national strategic approach to trade that fully supports the priority mission of security at our borders, while at the same time continuing to respond to an international trade system that demands the effective screening and efficient processing of cargo. This national trade strategy approach provides the opportunity to develop complementary methods to trade and other CBP priorities.

The fundamental guiding principles of this national trade strategy are to sharpen the focus on high-risk trade issues, leverage facilitation by making full use of facilitation programs, ensure revenue collection, enhance national oversight and multi-office coordination and measure performance to ensure we are meeting our intended goals. In support of this, CBP works to maintain a high level of trade compliance, collect the appropriate revenue, and fulfill the administrative and enforcement obligations required by trade mandates.

The strategic approach is organized around “Priority Trade Issues” (PTIs), which were developed using a consistent risk-based analytical approach. The emphasis is on integrating and balancing the goals of trade facilitation and trade

compliance. Action plans have been developed for the following PTIs: Agriculture, Anti-dumping/Countervailing Duty (AD/CVD), IPR, and Textiles and Wearing Apparel. The actions supporting these PTIs are designed to ensure optimum compliance through the appropriate use of field resources and enforcement actions. In addition, similar strategic action plans are currently being developed in the areas of penalties, facilitation, and revenue.

Agriculture

The Agriculture PTI is taking a proactive approach in identifying potential risks of contamination of agricultural products, whether intentional through terrorist actions, or unintentional by harmful pests that may cause harm to the American public. This will be accomplished through threat risk analysis and improved inter-agency/intra-agency communication and coordination. A targeted inter-agency enforcement strategy is under development that will address CBP operational procedures at all alert levels and will improve CBP cargo examinations performed for other agencies.

The Agriculture PTI team has evaluated risk analysis and vulnerability assessments from various agencies within USDA to identify and prioritize agricultural imports susceptible to agro terrorism. The USDA Food Safety Inspection Service (FSIS) and other agencies within USDA have completed or are in the process of completing vulnerability assessments to identify points in the production of imported products where biological, chemical, and radiological contaminants could be intentionally added to foods being brought into the United States. The Agriculture PTI team has participated in and coordinated classified briefings to discuss those findings and is now implementing the findings by developing agro terrorism rule sets designed to produce actionable targets.

The Agriculture PTI team has also begun the process of identifying candidates for the post entry verification of internal controls to ensure imported agricultural products do not pose health and safety risks. In collaboration with USDA, importers with a history of health and safety related violations or a history of importing high-risk commodities will be identified for verification.

Anti-Dumping/Countervailing Duties

The AD/CVD PTI is working to develop and implement methodologies to ensure that all imports subject to AD/CVD are properly entered, liquidated and fully collected. Initiatives undertaken this year include: amending the continuous bond guidelines to provide increased coverage for the highly volatile agri/aguaculture cases; developing methodologies to

identify and monitor high-risk AD/CVD cases; improved communications between Department Of Commerce (DOC) and CBP headquarters offices resulting in clearer, more timely liquidation notices; establishing direct contact between CBP field and DOC International Trade Administration analysts facilitating the cleanup of thousands of old unliquidated entries; and the development of monitoring methodologies to track the coverage and sureties associated with single-entry bonds that cover dumping liabilities.

Additionally, amended bonding guidelines for agriculture/aquaculture imports subject to AD/CVD have been issued in order to enhance CBP's ability to maximize the collection of dumping duties at liquidation.

Intellectual Property Rights

The IPR PTI goal is to improve the effectiveness of IPR enforcement by ensuring a single, uniform CBP approach and focusing on known or alleged violators with high aggregate values. It targets in particular those linked to Southeast Asia or whose infringing products threaten health and safety or with possible ties to terrorist activity. Strategic approaches being undertaken include improved targeting by identifying risk factors, maintaining on-going international cooperation, increased knowledge and awareness internally, increased industry outreach, and increased enforcement activities related to counterfeit trademark violations. For FY 04, there were 411 fines for counterfeit trademarks compared to only 174 fines in all of FY 03. Overall, there were 7,255 IPR seizures valued at \$138.8 million.

Import Trade Trends

CBP began to issue a semi-annual report on the CBP.gov website which includes highlights and graphical analysis designed to trace major trade patterns and the impact of major CBP initiatives on the international trade environment. More specifically, the report shows the growth in import value and volume, the rise in the number of importers CBP must interact with each fiscal year, and the trade impact of programs like C-TPAT and CSI. Import value continues a steady rise to over \$1 trillion annually, duty collections remain steady at around \$25 billion annually, and the number of summaries processed increases with each new fiscal year. Compliance rates for non-security issues are at an all-time high, while coverage of sea container imports from CSI ports increases, and over a third of all imports are connected with the C-TPAT program.

Regulatory Audit

Regulatory Audit is responsible for auditing major importers and other entities involved in international trade for compliance with laws and regulations governing the importation and exportation of merchandise.

The core business of Regulatory Audit is the Focused Assessment, a risk-based audit of major importers conducted according to professional auditing standards by regulatory auditors, and a team of other trade experts within CBP such as Import Specialists, International Trade Specialists, and Account Managers. By assessing the risk of the various CBP programs in a company, and evaluating a company's internal controls, the Focused Assessment reduces its scope of auditing to only those areas that present a risk to CBP. In this way, Regulatory Audit resources are carefully applied to achieve the maximum coverage in the trade area while reducing the intrusiveness to importing companies. Another priority of Regulatory Audit is to provide technical auditing support to ICE in the fraud area as well as in the money laundering area.

For FY 04, Regulatory Audit completed 382 audits with another 261 in progress. The overwhelming number of audits completed were in Regulatory Audit priority areas. In addition, 91 percent of the targeted risks identified by Regulatory Audit were affirmed during the audit process.

Importer Self-Assessment (ISA) Program

CBP continues its commitment to encouraging companies to share responsibility for compliance with trade laws and regulations. For those companies that are willing to assume the responsibilities for self-assessment, Importer Self-Assessment (ISA) offers meaningful benefits that can be tailored to industry needs. ISA is designed to complement and support C-TPAT and allows highly compliant importers to assess their own compliance with minimal government oversight. The two programs are related in that they are based on the principles of partnership and self-governance, with both offering significant benefits to participants.

The program was also developed with the flexibility to be tailored to unique industry needs. CBP worked collaboratively with representatives from the petroleum and textile industries to tailor the ISA program to their industry needs. As a result, ISA standards were developed that establish and clearly define the expectations for importers in those industries participating in the ISA program. Under the agreements,



CBP officer searches trunk of vehicle for illegal substances.

importers who seek to join ISA will establish the uniform controls agreed upon between their umbrella trade organizations and CBP. Currently, CBP is consulting with the aerospace, chemical and pharmaceutical industries to establish an ISA partnership and formulate similar standards.

The ISA program is primarily based on the development and use of established business practices and good internal controls designed specifically for a company's customs operations. At the end of FY 04, 118 companies had applied for ISA participation representing 15 percent of the total import value and 38 companies have been approved as certified ISA partners.

Textiles and Wearing Apparel

The Textiles and Wearing Apparel PTI goal is to ensure that inadmissible goods do not enter the commerce of the U.S. by designing and implementing innovative strategic approaches to identify and resolve instances of noncompliance. This is accomplished by using a series of actions which include deploying Textile Production Verification Teams, data analysis, inputting national criteria alerts, detaining, excluding, and seizing violating goods. In addition, CBP continues to partner with industry and foreign government counterparts to improve the flow of information to identify high-risk issues. In 2004 visits were made to 12 high-risk countries where over 710 factories were visited. Of these, 103 refused admission, 224 were permanently closed and 38 had evidence of transshipment of goods. Problems were uncovered in 94% of all factories visited.

As a result of these visits, to date the activity of the closed factories has been reduced from \$336M to \$5M and the number of importers dealing with these factories has been reduced from over 1000 to 55. In addition, in 2004, CBP seized over \$22.7 million in goods imported with counterfeit documents claiming false countries of origin of Russia,

Uzbekistan, Vietnam, South Africa, Maldives, Kenya, Botswana, Kyrgyzstan and Brunei. An additional \$19.1 million was seized for in-bond diversion and \$2.2 million seized for false classification or smuggling.

Account Management Program

The Account Management Program, established in 1997, is CBP's approach to managing its work through accounts rather than by individual transactions. Account Managers maintain constant liaison with their assigned companies or accounts, provide information under the principle of informed compliance, and help the account identify and resolve any areas of non-compliance.

This concept is based on the fact that approximately 2 percent of all importers import about 80 percent of all merchandise by value. A total of 1,700 accounts are assigned Account Managers: 1,490 Importer Accounts and 210 Broker Accounts.

Improving the compliance levels of these importers, or accounts, is more effective and efficient than attempting to deal with compliance at the individual import entry (transaction) level.

Account Management reflects the shared responsibility of CBP and the trade community for achieving compliance. Together, CBP and the account manager: review the account's compliance; identify CBP and account issues; develop an action plan for improvement; and monitor performance and uniformity.

CBP Implementation of the Food & Drug Administration Bioterrorism Act

CBP and the FDA are working closely to Implement the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (Bioterrorism Act - BTA), Public Law 107-188. This legislation established the requirement that food items, imported (or offered for import) for commercial use, including hand-carried quantities, be properly reported to the FDA, prior to the arrival of those items in the United States. The FDA prior notification timeframes (by transport mode) are 2 hours by land, 4 hours by rail or air, 8 hours by vessel and prior to the "time of mailing" for international mail.

Food for an individual's personal use (for consumption by that individual, his/her family or friends, and not for sale or other distribution) or food that was made by an individual in his/her personal residence and sent by that individual as

a personal gift (for non-business reasons) to an individual in the United States is not subject to BTA requirements. In general, failure to provide complete, timely and accurate prior notice, for BTA regulated items, can result in refusal of admission of the merchandise, movement of the goods to an FDA registered facility (at importer expense) and/or civil monetary penalty liabilities to any party involved in the import transaction.

Implementation of the BTA is expected to be an ongoing joint-agency initiative as FDA seeks completion of the "Final Rule" regarding BTA imports in FY 05.

Passenger Operations

CBP objectives in support of border security for passenger operations include:

- Deploying selectivity techniques and technology to separate high-risk from low-risk persons in advance of arrival;
- Initiating and expanding programs that facilitate the entry of low-risk persons
- Pushing out the borders to identify inadmissible people and prevent them from applying for entry;
- Improving our tools and systems;
- Forming strategic partnerships with Mexico and Canada

Security Initiatives: Selectivity Techniques and Technology

Advance Passenger Information System (APIS)

A priority for CBP in FY 04 was the continued implementation of the Aviation and Transportation Security Act of 2001, which made 100 percent compliance with APIS information on air passengers and crew mandatory for all air carriers. CBP continues to receive 98 percent of the advance information on passengers and crew with accuracy sufficient for basic law enforcement queries.

In an effort to address the impending period of increased risk and determine the ability of the air carriers to transmit data in a timely manner, CBP reached out to various carriers and proposed that the carriers voluntarily submit batch Advance Passenger Information periodically throughout

the check-in process. This would allow CBP to run "no fly" checks prior to departure and to test the capability of sending a "No Board" message to carriers indicating a positive "no fly" hit.

Compliance Systems

Two of CBP's effective compliance measurement systems measure the effectiveness of officers' selection techniques by introducing random sampling techniques into the inspection process. One program, the Compliance Measurement Examination Program (COMPEX) compares violations found during targeted enforcement exams with violations discovered during examinations of random samples of passengers and conveyances. CBP's Compliance Measurement is to provide a means of measuring the effectiveness of passenger processing procedures. Compliance measurements allow CBP to validate its deterrent efforts as well as to meet the requirements of the Government Performance and Results Act (GPRA). This comparison provides a measure of how well our selection programs are achieving enforcement and compliance results through CBP targeting. The Customs Automated Operations System (CAOS) allows port managers to schedule, run, record, and report on enforcement operations, either by random computer selection or manual choice of operation and time, and to perform random lane manipulations, unpredictably moving officers from one primary lane to another. The CAOS program is intended to deter the effects of surveillance by smugglers, reduce opportunities for internal conspiracy, increase the unpredictability of enforcement operations, record and report all enforcement operations, and improve overall enforcement effectiveness.

US-VISIT

The US-VISIT program remains one of DHS's top priorities. US-VISIT was implemented in response to Congressional requirements to create a comprehensive entry and exit system to improve how the U.S. manages foreign nationals who come into this country. CBP is assisting US-VISIT with a rigorous FY 04/FY 05 schedule to implement multiple increments of the US-VISIT process at air, sea, and land border ports of entry. CBP has been actively engaged in the development of business and user requirements, port surveys, training, deployment, and implementation of the US-VISIT process.

US-VISIT processing commenced on January 5, 2004, at 115 airports and 14 seaports. On August 1, 2004, exit processing at Chicago O'Hare International Airport was added to the list of ports conducting exit procedures. On September 30, 2004, Visa Waiver Program participants were included in the US-VISIT process. As of October 26, 2004, all Visa Waiver

participants are required to have machine-readable passports. CBP has been developing standard operating procedures to address these new requirements.

As of December 31, 2004, 50 of the largest land border ports of entry commenced US-VISIT processing of travelers requiring I-94's. Another significant change to land border processing is currently under development and will capture biometric information on travelers entering and exiting the US via vehicular lanes. The pilot for this project is anticipated to commence by June 2005.

Biometric Verification System for Border Crossing Cards

The equipment called the "Biometric Verification System" was designed to read the fingerprint encoded in Mexican Border Crossing Cards and compare it to the fingerprint of the person presenting the card. Border Crossing Cards are the most used travel documents held by Mexican citizens and replace passports and visas for those who have them. The equipment performs an automated biometric verification of identity and detects imposters trying to use valid cards issued to other persons to enter the United States. The systems have been installed at every land border port on the Mexican Border and 12 of the larger ports on the Canadian Border, as well. Since the installation of the equipment and tracking its results began on May 27, 2004, the equipment has assisted in 359 apprehensions of persons trying to use cards that don't belong to them.

Hardening the Borders

This is a multiple-year project to equip ports on both land borders that close at night with monitoring devices that will detect intrusion through the port after hours. In FY 2004, the deployment and installation of hardening equipment along the Northern Border continued with surveillance equipment and intrusion detection equipment completed at 29 ports and 2 CASCs. Since 2001, 60 ports and 6 CASCs have been completed. Approximately 4 ports on the Northern Border are scheduled to be rebuilt. When these facilities have been completed, they too, will be "hardened."

Currency Program

One of the major programs for Interdiction and Security (Outbound) is the Currency Program to interdict and deter the illicit flow of money to terrorist activities and narcotic trafficking organizations. Dedicated Outbound Currency Teams are a crucial element in the fight against terrorism and drugs. Without money and or other monetary instruments, it would be extremely difficult for terrorists and narcotic traffickers to execute their plans. It is therefore important for CBP to continue building on the success it has from the Outbound Currency Program. The following are figures on



A CBP Officer uses new technologies to process passengers.

the number and value of currency seizures from the field offices.

Number of seizures	Value of seizures	Year of seizure
1,337	\$51.7 million	FY 2003
1,320	\$45.9 million	FY 2004

In FY 04, CBP participated in several joint operations with ICE. These operations were geared toward the interdiction of outbound currency at courier facilities throughout the country. The latest operation was expanded to include the search for documents which may be used by terrorist groups to gain access to the United States and our allies. The expanded operation has resulted in the seizure of numerous documents from persons with links to Terrorism. The expansion has also netted significant seizures of cash. In ports where dedicated Outbound Currency Teams have been established, maintained and supported, significant results have followed.

Recently, the number of outbound currency seizures has decreased from fiscal year to fiscal year. Several reasons for this occurrence come into play. The primary reason for the drop is suspected to be the presence of the Transportation Security Administration (TSA) screeners at the airports. It is believed that because of the presence of the TSA screeners, passengers are no longer carrying large amounts of currency on their bodies or in their hand-carried luggage. Another reason is believed to be the elevated threat level, as this causes travelers to be scrutinized more closely.

Low Risk Initiatives and Pushing Back the Border

Visa Waiver Program

The Visa Waiver Program allows nationals of low risk countries to apply for entry to the United States without first securing a visa. The country reviews included examining immigration violation rates for nationals of the country, a review of their passports' security features, ensuring they are machine-readable, and a visit to each country by a multi-agency review team to see first-hand how passports are safeguarded, issued, and records maintained. The teams also look into any losses or thefts of passports before issuance in the country, and whether these are systematically reported. The teams review country conditions, especially the activities of high-risk groups, and the law enforcement controls in place over travel. When entering the United States, all Visa Waiver Program participants began enrollment in US-VISIT on the first of October 2004.

SENTRI and FAST

FY 2004 Achievements and Completions



On June 28, 2004, the FAST program was combined with trusted traveler programs SENTRI, NEXUS, C-TPAT and the seal technology program under Border Security and Facilitation (BS&F). The intention was to make every effort to align the card issuance and data base processes of FAST, SENTRI and NEXUS. The following represents a timeline for September 2004 achievements:

- Outlined the new SENTRI process.
- Completed the new SENTRI application form.
- Developed a strategy providing for stricter enforcement in the SENTRI lanes without delays for SENTRI passengers.

FY 2005 Goals

SENTRI staff established an aggressive timeline for the expansion of SENTRI along the Southern Border. The following timelines outline said expansion for FY 05:

- October 2004 – Plan the implementation of an automated vetting process to provide a more efficient operation,

given the expected increase in workload due to the combination of the trusted traveler programs.

- October 2004 – To fulfill the biometrics requirement for enrollment, CrossMatch 10-Print workstations will be deployed at each of the enrollment centers. The deployment strategy will be similar to that used by FAST. CrossMatchfield technicians, with the support of local Automated Data Processing Centers, will handle most technical deployment tasks.
- November 2004 – Review to ensure all the current operational and impending SENTRI lanes are equipped with the technology necessary to read the new proximity cards.
- December 2004 – Test and evaluate all SENTRI technology to ensure operational readiness and train CBP Inspection personnel at the ports that have obtained the necessary equipment for processing SENTRI passengers.
- January 2005 – Complete a scheduling component that will enable daily SENTRI appointment schedules to be downloaded to the various enrollment centers. There will be no walk-in appointments. This will allow for a more controlled and organized enrollment center.
- January 2005 – The new SENTRI paper application will be distributed to the SENTRI/FAST enrollment centers for distribution on February 1, 2004.
- February 2005 – The new 2D-barcode SENTRI application will be available to the public on the CBP website. SENTRI applicants will be informed of a 2-week turnaround if they use the web application and a two-month application turnaround if they use the paper application.
- March 2005 – The 2D-barcode SENTRI application will be distributed to numerous “local” Southern Border websites. CBP personnel will continue to market and promote the 2D-barcode application.

The Remote Port of Entry Project: Since the events of September 11, 2001, CBP has tightened procedures for entry into the United States at un-staffed ports. Programs such as the Form 1 in Maine and the Remote Video Inspection System (RVIS) at various Northern Border Ports were discontinued because of the risk inherent in operating un-staffed programs. In addition, a prohibition against entry at unstaffed ports is being enforced. The increased security measures caused some small communities on the Canadian border to be bifurcated after hours, with essential services existing on

one side of the border, but community members being unable to utilize them because they lived on the other side. To remedy this problem, the RPEP has been implemented at two locations in St. Pamphile and St. Aurelie, Maine, to balance our need to secure the Northern Border and provide service to individuals living at remote sites. Community members will be enrolled in a program, whose criteria is similar to the other trusted traveler programs, and will be given a biometrically-enabled identification card for crossing. The crossings will be monitored using video and audio systems at a monitoring port.

Tools That Support the Mission and Improve our Technical Capabilities at the Borders

The Global Enrollment System

The Global Enrollment System (GES) is designed to centralize and standardize processes used for travelers enrolled in SENTRI. Such centralization has improved homeland security, minimized unnecessary redundancies and costs, and simplified the SENTRI enrollment process. Modifications in FY 04 have provided for real-time reporting on SENTRI participants and lookout queries done on enrollment applications.

The Queuing Measurement Vehicle Recognition System

The Queuing Measurement Vehicle Recognition System is a pilot program to provide automated vehicle targeting by vehicle type, color, make and model, and to measure traffic flow. The system is currently performing the following functions to record the total number of vehicles waiting in the pre-primary queue: record the total number of vehicles processed through each primary lane by hour, shift, day, month or year; record the vehicle flow rate per minute for each lane; record the actual vehicle queue wait time; alert CBP supervisors of anomalies in traffic flow per lane or for the port as a whole.

License Plate Readers

Currently, 335 inbound license plate readers are deployed at ports in inbound lanes, 50 in outbound lanes, and 3 in commercial lanes, in a pilot test. Except for the pilot test, this project is in the maintenance phase.

National Security Entry Exit Registration System

On September 11, 2002, implementation of the National Security Entry Exit Registration System (NSEERS) began. The purpose of this program is to ensure that aliens, whose presence in the U.S. requires monitoring for national security purposes, provide information at regular intervals to verify compliance with their visa and to verify that they depart the U.S. at the end of their authorized stay.

ENFORCE

ENFORCE is an integrated system that supports enforcement case processing and management functions, storing data in a single repository. Since the inception of ENFORCE in 1998, the Border Patrol and now Ports of Entry process all immigration adverse action cases through the system.

The IDENT/IAFIS Program

IDENT/IAFIS was established to integrate the IDENT database with FBI Criminal Master File (CMF) known as IAFIS. These systems have been integrated into one system called IDENT/IAFIS. A full set of fingerprints is captured on a subject and the prints are sent simultaneously to both the IDENT and IAFIS databases. IDENT searches the lookout database that contains active wants and warrants and the recidivist database that contains subjects previously encountered by CBP. IAFIS searches the CMF that contains over 48 million criminal records. The integrated version of IDENT/IAFIS is now deployed to all BP stations and 46 ports of entry.

The SEVIS Program

In a press conference on August 27, 2004, Commissioner Bonner noted that the Student and Exchange Visit Information System (SEVIS), "Helps us quickly identify foreign nationals who do enter on student visas but no longer qualify for the visa because they have dropped out or are not enrolled at a qualifying educational institution."

Strategic Partnerships with Mexico and Canada

Mexico

CBP managers and staff met several times with our Mexican counterparts to further sections of the 22 Point Agreement. The following were among the initiatives undertaken that aim at improving traveler processing:

- **Change in Rules for Border-Crossing Card Holders**

To promote travel and trade in the border areas, DHS published an interim rule in August 2004 to extend the period of time Border-Crossing Card holders may remain in the border zone without a security permit. The time formerly was 72 hours; upon publication of the rule, the time became 30 days. The new rule is expected to strengthen ties with Mexico without lessening security.

- **SENTRI expansion**

Officials from the Mexican Embassy and from the various border stations to which SENTRI expanded have worked with CBP on the SENTRI program. The Department of State also participated in SENTRI planning for FY 04. The expansion of SENTRI led to improvement in infrastructure projects on these Mexican lanes connecting with SENTRI. The Mexican Embassy also supported a test of the SENTRI concept for pedestrians, consulting on publicity and enrollment processes. A pedestrian lane testing SENTRI for pedestrians was dedicated at the San Ysidro Port-of-Entry in September and will operate through calendar year 2004.

Canada

CBP managers and staff also met on many occasions with our Canadian counterparts to further the Shared Border Accord. Notable advances regarding traveler processing were these:

Safe Third Agreement for Managing Asylum Claims at Ports of Entry

CBP joined CIS to further an agreement with Canada on managing third-country asylum claims. The initiative bars certain persons in either Canada or the United States from arriving at the adjoining land border port and claiming asylum, since they have already gained entry to a “safe third” location.

Pre-clearance at land border locations

The United States and Canada engaged in detailed exploration of ways that pre-clearance could be initiated at land border ports with the least change to the agencies’ missions and enforcement responsibilities.

Integrated Border Enforcement Team (IBET)

On December 3, 2001, the Solicitor General of Canada and the Attorney General of the United States recognized the IBET as a best practice and agreed to expand the IBET concept in their Ashcroft – MacAuley 8 Point Agreement.

While IBET was new to some agencies that are now participating, the Border Patrol IBET program simply expanded the existing practice, formalizing IBET for all northern border sectors.

There are currently 15 IBET areas of responsibility, each of which is overseen by a Joint Management Team. Under IBET, all of the participating law enforcement agencies attend

regular planning meetings, share information and intelligence, work joint, coordinated operations, share resources as appropriate, and maximize border enforcement efforts.

Interior Repatriation Program

In the ABCI Operations Order, the Interior Repatriation (IR) Program was created for the purpose of creating the safe, orderly, dignified and humane repatriation of Mexican Nationals. The IR Program stemmed from negotiations with the Government of Mexico (GoM) in November 2003, following the conclusion of a Lateral Repatriation Program in which illegal Mexican migrants were repatriated to Mexico through various U.S. Border Patrol Sectors in Texas. The IR Program was agreed upon by both governments. With the implementation of the IR Program, illegal Mexican migrants were flown from Tucson, Arizona to the interior of Mexico daily from July 12, 2004 through September 30, 2004.

The IR Program’s primary goal was to strengthen national security and safety between the ports of entry along the Arizona-Mexico border and to prevent the illegal entry of terrorists and undocumented migrants into the United States. The program was designed to return illegal Mexican migrants to the interior of Mexico in order to break migrant ties to local smugglers and remove them from the dangers of the harsh desert environment during the perilous summer months, thus decreasing migrant deaths.

The IR program was implemented on July 12, 2004 in the Tucson Sector and on September 6, 2004, Yuma Sector was integrated into the IR Program. The IR Pilot Program ended on September 30, 2004. Agencies from the U.S. and Mexico worked together to ensure the efficiency of the program from its inception in Tucson as well as in Mexico. The U.S. embassy in Mexico City also coordinated with CBP in an effort that ensured maximum support from the GoM.

Office of Border Patrol’s IR Program repatriated 14,058 Mexican Nationals to Mexico. The target number of daily interior repatriations was 300. The average number of daily interior repatriations was 173. This was due to the IR Program being completely voluntary and all participants had to agree to be repatriated. 151 flights were conducted during the IR Program.

The greatest success of the IR Program was that heat exposure deaths were down in the Tucson Sector by 69%, from 45 last year during the same time period to 14 this year (preliminary information as of October 11, 2004).

Guide Identification Prosecution Program (GIPP)

The GIPP is a pilot program in which alien smuggling cases that do not meet the current U.S. attorney criminal case guidelines are presented for prosecution in Mexico. The subjects are prosecuted in Mexico for smuggling charges (Población), which carry a maximum sentence of 6 years in prison. Thus far, the program has had many successes in the El Centro Sector in prosecuting smugglers/guides in Mexico. This program should prove to be very beneficial by reducing the number of migrant injury/deaths along our nation's border. This program was implemented to augment the BSI and reduce migrant deaths.

With aid from our Border Patrol stations and the IDENT-ENFORCE database, guides, smugglers, and witnesses are identified and debriefed. If material witnesses give collaborating statements against an apprehended guide or smuggler, the case is set up for prosecution in Mexico. If the case is not prosecutable either in Mexico or the United States, the intelligence information received from the subject is collected and distributed to the appropriate entities, which is utilized to enhance enforcement measures and formulate investigations on both sides of the border.



Examination of vehicles is an important part of CBP work.



CBP officers verify information from passengers at all stages of travel, if necessary.

Protecting America and Its Citizens

Protecting America and Its Citizens

Goal: Dramatically reduce the amount of illegal drugs entering the United States at our ports of entry.

Overview

Although anti-terrorism is the number one priority of the agency since the events of September 11, 2001, CBP remains a leader in the interdiction of illicit narcotics. Our heightened state of security along America's borders has strengthened our counter-drug effectiveness due to additional manpower and non-intrusive inspection (NII) technology assets at our ports of entry. In addition to NII technology, programs such as the Canine Enforcement Program increase our enforcement stature while effectively and efficiently processing trade and the traveling public.

Challenges

CBP faces numerous challenges in its mission to combat drug trafficking and significantly reducing the amount of illegal drugs introduced into the United States each year. Drug Smuggling Organizations (DSOs) seek to develop new and sophisticated methods to smuggle drugs into the United States by land, air and sea. These organizations have historically proven to be fiercely determined and creative in order to reach their smuggling goals. They expend immense amounts of money and time to hinder U.S. law enforcement efforts by finding new concealment techniques, organizing internal conspiracies, using various transshipment routes, and even attempting to corrupt law enforcement officers.

The demand for illegal narcotics remains high in the United States and the methods that DSOs use to introduce contraband into our country is ever changing. CBP works to reduce the effectiveness of the strategies DSOs employ through the use of coordinated intelligence and interdiction efforts. The identification and dismantling of DSOs is essential to successfully combat drug smuggling.

As the protectors of our nation's borders, CBP Officers and Border Patrol agents play a unique role in maintaining the integrity of our national security. CBP is challenged more than ever to secure our borders against the introduction of contraband, including illegal narcotics and weapons of mass destruction, while expediting the movement of legitimate cargo and passengers. The greatest threat comes from the volume of trucks, containers and rail cars that enter the United States each year. During FY 04, 11.3 million trucks, 121.4 million vehicles and 49.4 million pedestrians entered the country. The demand placed upon CBP personnel to screen and examine all targeted high-risk shipments has never been more challenging.

Analysis of Performance

From FY 03 to FY 04, the total number of cocaine, methamphetamine and heroin seizures increased, while the total weight and the average weight of marijuana, cocaine, heroin and methamphetamine seizures declined. CBP continues to monitor and respond to the continuous shift in drug smuggling routes and methodologies.

Performance Measure: Those who attempt to smuggle narcotics into the United States use a wide variety of smuggling techniques and strategies. They may attempt to conceal the narcotics in various types of conveyances, in cargo, on their person, or in their luggage. They may try to smuggle through a port of entry or between ports. They may be connected with a drug smuggling organization or group, or they may be acting independently. They may be smuggling large amounts of narcotics, small amounts, or anything in between.

The increased scrutiny of conveyances, cargo, people, and baggage following the September 11th attacks makes it more difficult for a drug smuggler to be successful. Yet, drug smuggling organizations are very ingenious in developing

new tactics to evade CBP's efforts. CBP, in turn, aims to keep one step ahead of the smugglers through the use of technology, training, automated computer systems and intelligence to either deter or seize the narcotics.

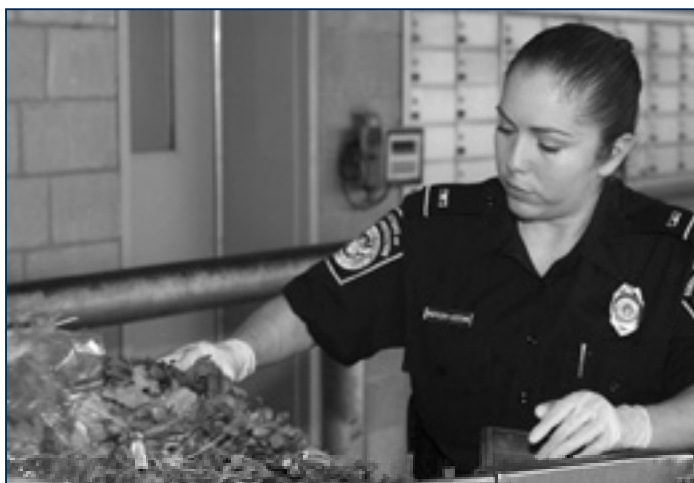
Target: Seize or assist in seizing 77,800 pounds of cocaine, 3,900 pounds of heroin, and 873,800 pounds of marijuana.

Results: In FY 04, Customs and Border Protection officers seized or assisted in seizing approximately 44,560 pounds of cocaine, 2,840 pounds of heroin, and 652,788 pounds of marijuana.

Comparing the target goals (shown above) to the actual FY 04 seizure amounts, the weight (pounds) of cocaine seized was 42.7 percent below projected (44,560 to 77,800), the weight of heroin seized was 27.2 percent below projected (2,840 to 3,900), and the weight of marijuana seized was 25.3 percent below the projected level (652,788 to 873,800).

For the past several years, the increase in the smuggling of synthetic drugs has raised significant concern among U.S. law enforcement groups. In FY 04, CBP made, or assisted in making, 290 methamphetamine seizures totaling approximately 2,148 pounds. Comparing the FY 04 methamphetamine seizure activity to FY 03 methamphetamine seizure activity, the number of methamphetamine seizures increased by 3.2 percent (290 to 281).

Target: Effect at least 1,788 cocaine seizures, 802 heroin seizures, and 10,422 marijuana seizures.



A CBP Agriculture Specialist checks through coriander entering from Mexico for pests.



This beagle finds a potentially illegal food product that may contain pests harmful to U.S. agriculture.

Results: In FY 04, CBP officers effected or assisted in effecting 2,095 cocaine seizures, 631 heroin seizures, and 10,514 marijuana seizures.

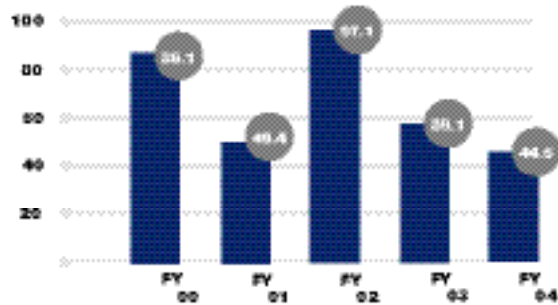
Comparing the target goals (shown above) to the actual FY 04 seizure amounts, the number of cocaine seizures was 17.2 percent above projected (1,788 to 2,095), the number of heroin seizures was 21.3 percent below projected (802 to 631), and the number of marijuana seizures was 1.1 percent above projected (10,422 to 10,514).

Comparing FY 04 seizure activity to FY 03 seizure amounts, the number of cocaine seizures increased by 20 percent (1,750 to 2,095), the number of marijuana seizures increased by 2 percent (10,331 to 10,514), and the number of heroin seizures decreased by 17.3 percent (763 to 631). During the same timeframe, the average weight per seizure (pounds) decreased for heroin from 5.0 to 4.5, decreased for marijuana from 76.3 to 62, and decreased for cocaine from 33.7 to 21.2.

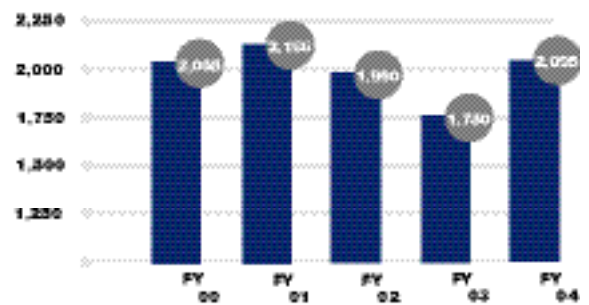
Comparing FY 04 methamphetamine seizure activity to FY 03 seizure activity, the total weight (pounds) seized decreased by 13.1 percent (2,472 to 2,148) and the corresponding average weight per seizure (pounds) decreased to 15 percent (8.7 to 7.4).

Office of Field Operations Seizure Statistics (FY 00 – FY 04)

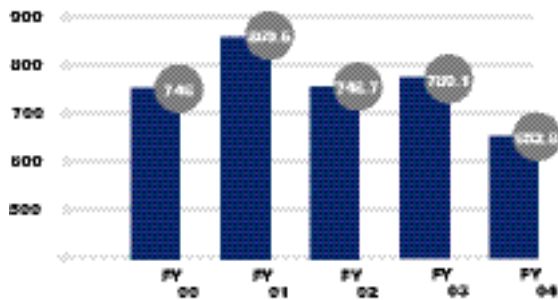
Pounds of Cocaine Seized (in Thousands)



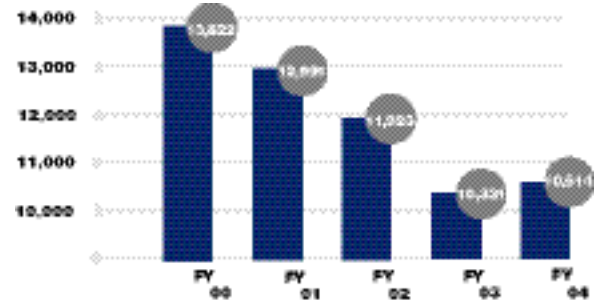
Number of Cocaine Seizures



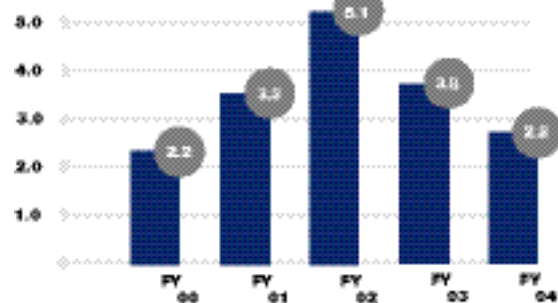
Pounds of Marijuana Seized (in Thousands)



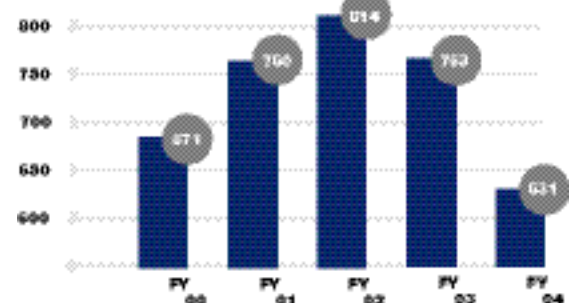
Number of Marijuana Seizures



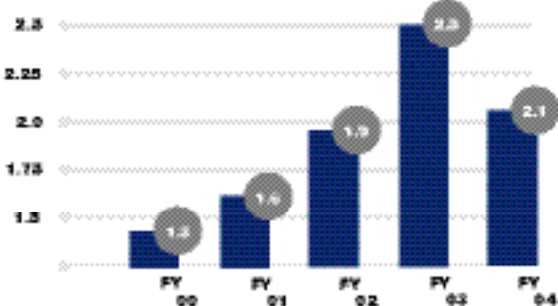
Pounds of Heroin Seized (in Thousands)



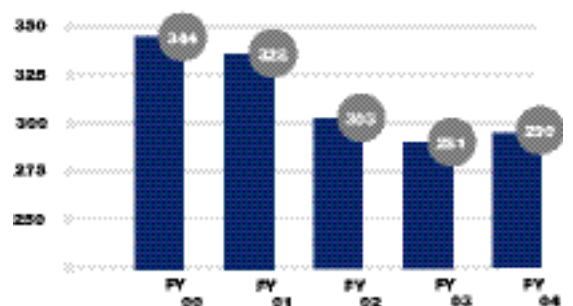
Number of Heroin Seizures



Pounds of Methamphetamine Seized (in Thousands)



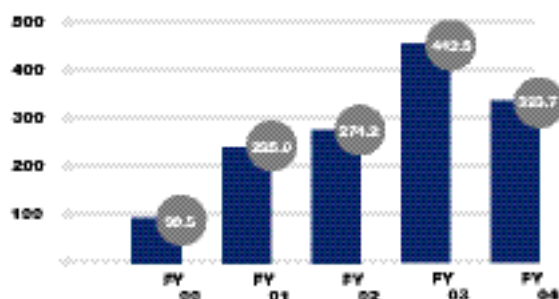
Number of Methamphetamine Seizures



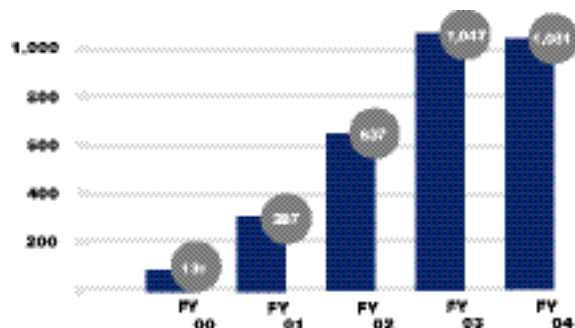
NII Technology

In 1997, OFO devised a 'Five Year Technology Plan' that incorporated the use of large-scale high technology to assist in the interdiction of illicit narcotics from entering the United States. The use of this large-scale NII technology has resulted in a more effective and efficient, as well as less invasive, method of inspecting cargo, compared with drilling or dismantling of conveyances or merchandise. Large-scale NII equipment consists of advanced, multi-million dollar x-ray and gamma-ray imaging systems that greatly reduce the need for costly, time-consuming physical inspection of containers and conveyances. Currently, there are 155 NII systems, deployed at 67 different POEs around the United States borders with Canada and Mexico. Since 1995, the use of this technology has resulted in 9.1 million examinations of commercial and private conveyances, 3,133 seizures, and 1.4 million pounds of illegal contraband.

Weight of Narcotics Seized Resulting From Use of Large-Scale NII Technology (in Thousands)



Number of Narcotics Seizures Resulting From Use of Large-Scale NII Technology



A CBP canine searches a vehicle for illegal substances.

Canine Enforcement Program

On March 1, 2003, CBP was officially established. This combined the individual canine programs from the former U.S. Customs Service, U.S. Border Patrol, USDA's APHIS, and INS into two: the OFO Canine Enforcement Program and the OBP Canine Enforcement Program.

Since the creation of CBP, the Canine Enforcement Program has made notable strides in managing the largest federal law enforcement canine program in the United States. With over 1,200 canine teams assigned to over 73 ports of entry and 69 Border Patrol Stations throughout the United States, this combined program offers a diverse detection capability including detection of narcotics, currency, explosives, chemicals, agricultural products, and concealed humans.

Three training facilities support the canine force. The Canine Enforcement Training Center, in Front Royal, Virginia, was established in 1974 (U.S. Customs). The National Canine Facility, in El Paso, Texas was established in 1991 (Border Patrol and INS) and the National Detector Dog Training Center in Orlando, Florida was established in 1997 (USDA).

Throughout 2004 the Canine Enforcement Program has established policies and procedures to further ensure that the canine teams, working on the frontlines, are provided and equipped with the training and support required to provide optimal defense at our borders. These efforts have included the enhancement and strengthening of certification standards for narcotic and explosive detector dog teams. Augmenting these endeavors has been the continued cooperation between the Canine Enforcement Program and other DHS agencies.



First graduating class of CBP Agriculture Specialists.

In 1998, the Canine Enforcement Program established a detector dog breeding program to maximize the number of dogs suitable for detection training. The program, modeled after the Australian Customs Service program, has bred 19 litters to date. This program relies on the local community to raise the puppies in foster homes. The Canine Enforcement Program has shared best practices, and lessons learned, with other DHS agencies with similar breeding programs. This increase in the sharing of information has strengthened interagency relationships.

The Canine Enforcement Program is responsible for a significant proportion of narcotic seizures made by CBP, accounting for more than 11,585 narcotic seizures totaling over 1,170,756 pounds of narcotics in FY 04. The Canine Enforcement Program was also responsible for seizures of U.S. currency worth \$33 million in FY 04¹. During FY 04 the Canine Enforcement Program was accountable for over 68,512 Quarantine Material Interceptions of plant products and over 17,956 Quarantine Material Interceptions of animal products with a combined weight of over 6,552 lbs.²

Terrorism: Detector Dogs

In FY 04, the Canine Enforcement Program expanded on the deployment of the Explosive Detector Dog program and the Chemical Detector Dog program. These programs are designed to enhance the CBP anti-terrorism efforts, maintaining the Commissioner's focus of anti-terrorism and national security. The first teams were deployed to selected ports in early 2003 in order to prove the concept. This initial deployment of chemical and explosive detector teams successfully proved the concept of using these programs in

proactive enforcement at our nation's borders. In addition to proactive enforcement at the borders, in 2004 CBP chemical and explosive detector dog teams supported national security events. This included the Republican National Convention in

New York City, the G-8 Summit in Savannah, Georgia and assistance to NASA's Johnson Space Flight Center in Houston, Texas. Using the 30 plus years of experience in the training of detector dogs, CBP has established and deployed these world class programs to augment existing technology while establishing cutting edge detection capabilities not currently available in the detection of specific types of weapons of mass destruction. Under these programs CBP now provides a higher level of security emphasizing a seamless conduit between existing technology and the proven capabilities of detector dogs.

During FY 04, CBP signed a Memorandum of Agreement (MOA) with USCG. This MOA enabled CBP to train all future Coast Guard narcotic and explosive detector dog teams. Throughout 2004 the Canine Enforcement Program continued to work with other federal law enforcement and intelligence agencies to develop training strategies and protocols based on real-world threats and intelligence trends. Most notably were the sustained cooperative efforts with the FBI, TSA and the USCG.

Agricultural Inspection

CBP Agriculture Specialists detect and stop prohibited agricultural items that are potential carriers of animal and plant pests or diseases from entering the United States. Entry of these items can cause serious damage to America's crops,

¹ Data received from TECS/TPX Detector Dog System, Canine Narcotic Summary Report. Information current as of 10/01/04. Data received from Director, National Canine Facility (OPB) through manual tabulation. Information is current as of 9/30/04.

² Data received from AI Program manager through manual tabulation. Information is current as of 10/01/04.

livestock, pets, and the environment. We have linked and integrated the important duties and responsibilities of the scientific mission of agricultural border inspection to the expertise and operational capabilities of the primary CBP mission: to prevent terrorists and terrorist weapons from entering the United States.

During FY 04, CBP's agriculture specialists made more than 1.7 million interceptions of prohibited plant materials, meat, poultry and animal by-products in baggage only. Moreover Agricultural Specialists found more than 69,000 quarantine-significant pests, pests that could have damaged crops and other agricultural resources, causing economic hardship to the United States and its citizens. In addition, the officers conducted nearly 5 million cargo inspections.

Supported by a canine force that can sniff out hidden agricultural items with extraordinary accuracy, CBP agriculture specialists work at U.S. ports of entry and land borders including U.S. international airports and mail facilities. They work with CBP officers to analyze advance information and target for risks, including harmful pests and diseases.

July 13, 2004 was a historic day for CBP. It was the graduation day for the very first class of CBP Agriculture Specialists and the beginning of a rewarding career for these 29 individuals. Additional classes are in progress and 19 classes have been scheduled through FY 06.

All four inspection and law enforcement services were successfully unified on August 6, 2004, when CBP Officers, CBP Agriculture Specialists, and CBP Border Patrol Agents received their official CBP badges, which identify them literally and symbolically as "One Face at the Border." CBP Officers receive training in counter-terrorism techniques and extensive unified-primary cross training to maintain traditional skills and learn new ones. Continuous cross-training in each other's disciplines and integrated to forge a single identity, the new, unified corps of officers in the America's frontline in the war on terrorism, controls and manages the nation's border functions to defend against terrorism, which also expedites international travel and trade.

The primary mission for CBP's consolidated frontline defense is to prevent terrorists or terrorist weapons from entering the United States, while continuing to maintain the traditional agricultural inspection mission of preventing the introduction of dangerous agricultural pests and diseases from other countries that could disrupt U.S. agricultural production.

The overall goal of the Agriculture Inspection (AI) program is to prevent the introduction of invasive species into the

U.S. at acceptable levels to protect U.S. agricultural resources, maintain the marketability of agricultural products, and facilitate the movement of people and commodities across the borders. Accordingly, inspecting travelers and cargo are important in keeping prohibited items out of the U.S., and monitoring for significant agricultural threats, encouraging compliance with regulations, and educating the public and importers concerning agricultural quarantine regulations.

CBP agricultural inspections that thoroughly examine randomly selected baggage, passengers and commercial vehicles, and cargo to collect information will enable CBP to be more effective and efficient at preventing pest and disease entry and therefore improve CBP's ability to safeguard U.S. agriculture.

Performance measures best represent the random inspection of travelers and cargo. The data collected from inspections not only helps us estimate the percentage of compliance, but also provides information concerning various agricultural items seized to better understand the threat risk of agricultural pests and diseases.

Performance Measure: % of International air passengers in compliance with agricultural quarantine regulations

FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate
97%	97%	97%

Performance Measure: % of border vehicles in compliance with agricultural quarantine regulations

FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate
96%	96%	96%

The compliance rates are based on statistical sampling. The actual performance results listed in the table above are the midpoint of the range. The program collects data used to measure this performance goal through AI Monitoring activities. Program officials collect data at multiple POEs for the air passenger, border vehicle, and cargo pathways by applying standard statistical sampling procedures.

Border Patrol Air and Marine Operations

The OBP marine program and OBP air program have recently been consolidated under Border Patrol's Air and Marine Operations. During the next year, a major OBP focus will be on reorganizing the marine program to improve mission

readiness through further standardization of the fleet, training, and administration.

Air Operations: Aviation is one of the most effective force multipliers utilized in securing our nation's borders. In 2004, Air Operations reached the following milestones, which will enable the continued success of the program in the years ahead. A fleet recapitalization or modernization plan will replace the aging Vietnam era observation helicopters, which represent the largest segment of aircraft in the operational fleet.

The modernization plan also calls for the acquisition of twin-engine helicopters, which will give the Border Patrol the flexibility to conduct more demanding special operations, with the additional safety provided by a second engine.

The past year has seen the completion of several multi-year projects such as the Night Vision Goggle modernization plan. FY 04 was the third and final year in the acquisition of Pinnacle night vision goggles to replace the ANVS 9 goggles previously used by our aviators.

A new Aviation Training Center has just been completed in El Paso, Texas that will allow the use of the latest information technology to support our computer based training programs. The training center will support aviation training for both pilots and mechanics, and for the first time will also incorporate ground-based observer training in the use of thermal imaging systems. This will allow the standardized training of FLIR operators at a substantially reduced cost before moving into a helicopter for the final phase of training. The center also incorporates synthetic flight simulation as well as a state-of-the-art night vision goggle laboratory.

This year has seen record levels of aviation support to every border sector, both in routine operations and special initiatives such as the Arizona Border Control Initiative (ABCI). During 2004, the Border Patrol air operations program flew 45,858 hours, apprehending 96,341 violators and seizing \$103,574,253 in illegal narcotics. This equates to 2.1 arrests and \$2,259 in seized contraband for each hour flown.

Marine Operations: The Headquarters OBP National Marine Program consists of 125 vessels and 384 agents located in 16 sectors on both the northern and southern borders of the United States. Vessels operated by OBP range from hovercraft in Yuma Sector, airboats in Del Rio Sector, all-season Secured All around Flotation Equipped Response Boat – Small (SAFE RB-S) Boats in Grand Forks, and Dakota high-speed interceptors in Miami. The OBP employs vessels in the primary OBP mission of detecting and interdicting terrorists and terrorist weapons, throughout the Territorial Waters of the United States.

Throughout FY 04, OBP patrol boats across the nation and in Puerto Rico have apprehended and/or deterred countless aliens and smugglers, interdicted thousands of pounds of narcotics, and rescued both U.S. citizens and aliens from dangerous conditions and drowning.

Nationwide, Border Patrol Marine Units train with DHS partner agencies as well as provide training and expertise to state and local police departments.



A CBP employee leads an SAP training class.

Modernizing and Managing

Modernizing and Managing

Goal: Continue to build a strong, modern management infrastructure that assures the achievement of business results.

Support for CBP's new mission comes from a number of important functional areas that include:

Human Resources Management

Financial Management

Mission Support and Shared Services

Training and Development

Equal Employment Opportunity, and

Information Technology

Human Resources Management

Completing the Transition to One Face at the Border

In FY 03, CBP established new frontline occupations, the CBP Officer and the CBP Agriculture Specialist. For FY 04, the focus was on implementation. In order to accomplish full integration of CBP's inspectional workforces and optimize the agency's ability to perform its anti-terrorism and traditional missions, HRM carried out a number of administrative processes in coordination with other mission support offices.

First to be processed was the March 2004 conversion of more than 1,400 Agricultural Quarantine Inspectors to the new CBP Agriculture Specialist position. While retaining the requirement for biological science education, this new position broadens the mission and functions of the legacy Agriculture inspectors to include safeguarding the public from agro-terrorism and bio-terrorism. HRM developed new position descriptions and classified the career ladder at the GS-11 level, aligning the Agriculture Specialist with CBP's other frontline positions in the war on terrorism.

Next, following regulatory changes which extended Customs Officer Pay Reform Act (COPRA) system pay and overtime coverage to the new frontline officers effective in July 2004, CBP converted over 18,000 legacy Customs and Immigration inspectors to the new CBP Officer position. In a massive and cooperative effort, the team coordinated and tested new personnel, payroll and timecard system requirements,

ensured employees were trained to accurately input hours worked, and then synchronized all of the payroll and personnel actions required to successfully effect the conversions.

Effective July 25, 2004, all CBP Officers and CBP Agriculture Specialists became covered by a single compensation system for overtime and premium pay, COPRA, ensuring efficient and equitable assignment of work and payment.

In addition to completing these personnel actions, full integration required the unification of numerous legacy policies and procedures that created inconsistencies within the workforce, including policies for drug-screening, foreign language awards, performance management, and grooming standards. CBP identified operational problems with the bid and rotation system and negotiated an agreement to return to managers the authority to match employee skills with operational needs. In addition, a unified merit promotion plan was developed and implemented for non-bargaining unit positions.

In the area of professional conduct, all CBP offices were integrated into the Discipline Review Board (DRB) process, ensuring a defensible disciplinary program. This included the development and publication of an agency-wide Standard of Conduct and Table of Offenses after completion of bargaining obligations and the implementation of a communications rollout strategy. In addition, a unified CBP intake process for reporting allegations of misconduct was developed.

Merged Human Resources Shared Services

HRM developed strategies to ensure the seamless delivery of shared human resources services for the Tri-Bureau DHS agencies of USCIS, CBP and ICE. This has enabled these customers and other DHS clients to receive superior HR services without having to create and maintain redundant policies, procedures, automated systems, and processes.

The sharing of human resources services leverages the knowledge and experience resident in the HR department of the former U.S. Customs Service and two HR organizations of the former INS, incorporating the cultural strengths and best practices of each.

HRM continually monitors the workload associated with the servicing requirements of its customers and employees and allows considerable flexibility in the assignment of work to its major centers in order to meet the servicing needs of management and employees. Examples are:

- All Tri-Bureau entry-level hiring was consolidated in the Minneapolis Hiring Center
- Servicing assignments were realigned to address workload issues in ICE by assigning the major ICE organizations to service providers at CBP HRM headquarters, as well as the Dallas, Texas and Laguna Niguel, California Shared Services Centers
- The Burlington, Vermont Shared Services Center was assigned as a dedicated service provider to USCIS and managed all Tri-Bureau inquiries and processing for the 2004 Federal Employees' Group Life Insurance (FGLI) open season
- Client representatives at CBP HQ human resources were assigned to serve as the principal points of contact for the hiring center and shared services centers

Developed Video-based and Online Automated Testing

Video-Based Testing (VBT) was developed and implemented as a cost-effective replacement for the resource-intensive Structured Oral Interview panel that had been required to evaluate critical job competencies for entry-level CBP Officer and Agriculture Specialist positions. Applicants are presented with professionally developed videotaped scenarios that depict situations and critical incidents encountered during work conducting inspections. Their responses to the scenarios can be evaluated immediately at the test site or collected and

forwarded to evaluation teams anywhere in the field. VBT has reduced administrative burden on field managers responsible for test administration and evaluation of applicants and has resulted in a 55% reduction in applicant testing time.

In addition, a Computer Online Automated Testing System (COATS) was developed that is planned to replace CBP's current paper-and-pencil aptitude and skills testing for entry-level, promotion, and career development. The new system will provide computer-based, Web-accessed testing services for CBP, ICE, and USCIS, and will allow job candidates to self-schedule the date, time, and location of their test sessions. The system is projected to generate a 215 percent rate of investment return upon full life cycle implementation. COATS was approved by the DHS Enterprise Architecture Center of Excellence for this bold initiative, which is easily expandable to DHS-wide assessment application.

Workplace Safety

Ensuring that employees have appropriate personal protective and safety equipment as well as a safe environment continued to be emphasized this year. A new environmental compliance program was developed for CBP. More than 450 safety and health inspections were conducted. Training programs were updated or developed using various media (CD-ROM, video, broadcast) so that all employees and supervisors are informed about safe working habits and their responsibilities. More than 6,600 employees were trained in areas such as:

- Confined space entry awareness
- Bloodborne pathogen satellite
- Radiation safety training
- Hearing protection
- Back injury protection
- Supervisor and collateral duty safety officer training

A comprehensive evaluation of agriculture specialist duties was conducted to identify best safety practices, medical surveillance needs, personal protection equipment needs, and safety training requirements.

Financial Management

Overview

CBP strives to be a leader in financial management and asset management by providing high quality, cost-efficient financial and asset management services through customer involvement and modern, integrated financial systems. Our goal is to be continuously developing and implementing more effective and efficient methods to obtain, manage, and



CBP employees attend an SAP training class.

deliver the financial resources, capital assets, and financial services to meet, or exceed, the needs of customers and stakeholders. At the same time, because CBP is also a revenue collection agency, it is imperative that we accurately identify amounts owed CBP, efficiently and effectively collect, report and account for revenue.

Providing top quality financial management services includes: translating workloads and requirements into budget requests for needed resources; allocating and distributing funds after resources are made available; acquiring and distributing goods and services that are used to accomplish the CBP mission; managing and paying for those goods and services; and, reporting on the costs and use of personnel, goods, and services.

Challenges/Strategies

The primary financial and asset management challenge that CBP faced in FY 04 was institutionalizing and solidifying the services, systems, organizations, and staff that were combined by the consolidation of several agencies into CBP.

This included the need to formalize the integrated budgets of all agencies absorbed within the CBP, continue to re-arrange facilities and space to accommodate consolidated staffs and functions, issue redesigned uniforms and badges, consolidate property and equipment, and continue the task of integrating and consolidating financial systems and data in order to provide seamless financial management support to all affected employees. All of this needed to be done while continuing to adapt to and support CBP's major new mission priority of combating terrorism by obtaining and putting into place resources for fighting this new war. In addition, the explosive growth of U.S. trade with other countries, as stimulated by international trade agreements, continued to increase our challenges associated with collecting and accounting for correct amounts of revenues due to the U.S.

An ongoing challenge faced by CBP is to constantly improve its systems capabilities for accounting and reporting financial information to meet the high standards now expected of Federal Government entities. This entails a more effective use of accurate, reliable financial information in conjunction with budget and cost information to help managers make better decisions. In pursuit of this challenge, CBP continued the implementation of its new integrated Enterprise Resource Program (ERP) system by bringing on-line at the end of FY 04 for the start of FY 05 a large number of system changes with the implementation of Release 3 of SAP. The impact of SAP/R3 is far reaching, as it will put into place new automated, integrated processes for core finance and accounting, budget execution, and reporting. The successful implementation of this new financial system is one of the largest challenges and opportunities faced by CBP. Plus, we fully intend and anticipate that the improvement of our financial system will parallel the modernization of CBP commercial systems to ensure effective coordination and synchronization of system functions.

Our strategy to address these consolidation and mission challenges involves the steps we are taking to develop and implement new systems and technologies, as with SAP/R3, as well as efforts to improve and enhance existing technology, systems, and processes. We are constantly searching for new avenues to maximize the use of electronic commerce in accomplishing financial transactions. One of our aims is always to ensure the reliability, accuracy, and usefulness of financial data, while simplifying the burden of data entry and retrieval for our staff and our customers.

We also have placed greater emphasis on the revamping and retraining of our workforce to accompany anticipated technological changes in systems and equipment. Our goal in this regard is to ensure that our staff members always have the skills, abilities, and personal attributes to make the best use of our new systems and processes and to provide top quality service to customers.

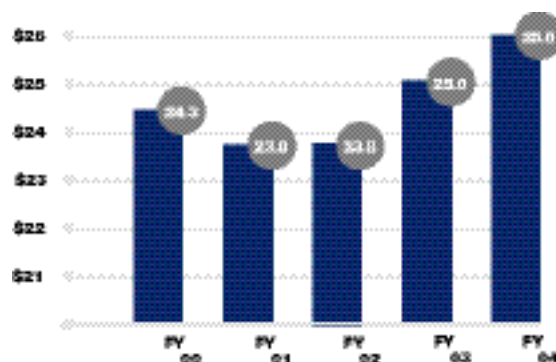
FY 2004 Initiatives

In FY 04, CBP made progress in implementing a number of major financial management initiatives. Some of the more significant were:

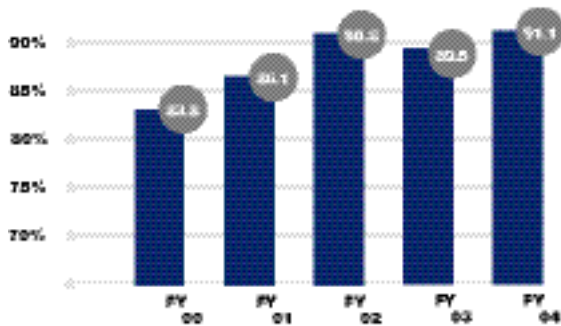
- Completing the facility renovations at all three major locations for the relocated New York employees that were previously housed at 6 World Trade Center and closing out this project

- Working with DHS to submit the Future Years Homeland Security Program, which is a five-year planning and performance tool
- Continuing the development and implementation of SAP as part of efforts to modernize our financial systems, with the implementation of Release 3, involving new systems and processes for core finance, budget execution, and reporting functions
- Successfully negotiating and implementing five shared services agreements (Printing, Fleet, Forms, Construction, and Leasing) for which the OF is the service provider;
- Establishing and coordinating the CBP Investment Management Process for capital asset acquisitions at DHS
- Continuing to successfully implement the provisions of the Continued Dumping and Subsidy Offset Act of 2000 (Byrd Amendment) by processing more than 1,800 claims, totaling more than \$200 million
- Leading the effort to extend the Consolidated Omnibus Budget Reconciliation Act (COBRA) legislation and raise the need for revision of COBRA fees to provide revenues to recover the full costs of CBP services
- Completing the first strategic resource assessment for a Border Infrastructure Modernization Program as a major (Level I) DHS acquisition program to address long-neglected facilities requirements, evaluating results, and preparing for second prototype assessment
- Developing and implementing a plan and policy for the management and transition of various real and personal property systems used by legacy agencies into CBP
- Implementing a variety of Procurement techniques (e.g., spend analysis, volume purchasing, and measurement of savings) aimed at improving the acquisition process and demonstrating measurable results for our procurement processes
- Embarking on an aggressive program to improve the quality and quantity of Procurement staffing to provide better planning, execution, and management of contracting activities
- Actively engaging in DHS strategic sourcing procurement initiatives, serving as the lead on the uniforms initiative and being a driving force on many other strategic sourcing initiatives
- Supporting the successful implementation of the ACE Periodic Statement application, enabling importers and brokers to view monthly statements and make monthly payments, as part of the ACE pilot
- Successfully coordinating the regulatory changes and payroll system modifications for the new CBP Officer positions
- Providing oversight and technical expertise in the development and evaluation of the eMerge2 financial system solution proposed for DHS
- Developing and implementing processes for reimbursing CBP appropriations, financial plans and the COBRA user fee account from the Immigration and Agriculture User Fees
- Developing and implementing the program to ultimately replace user fee decals with transponders, providing more efficient and more secure expedited movement of trade into the country
- Successfully consolidating cashier deposit activity from legacy INS and Customs operations at 243 ports of entry, improving efficiency, accountability and control, while helping to present “one face at the border” for fee collection
- Managing a pilot program designed to centralize entry bond processing
- Transitioning the collection of legacy INS user fees to CBP

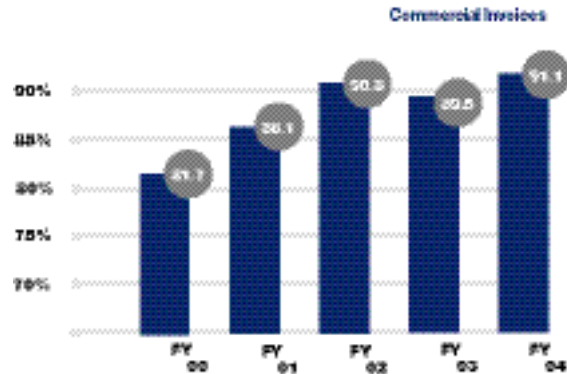
Gross Revenue Collections (in billions of dollars)



Percentage of Collections Received via Electronic Means



Payments Made by Electronic Funds Transfer (Percentage)



Financial Results and Performance Measures

CBP administers the U. S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across U. S. borders, and assessing and collecting duties, excise taxes, fees, and penalties on imported and exported goods and services. In FY 04, CBP collected \$26 billion in gross revenue; \$24.4 billion of this represented custodial revenue of which \$23.2 billion was returned to Treasury to fund other federal agency programs. CBP also returned \$28.1 million to the Governments of Puerto Rico and the U. S. Virgin Islands, transferred \$100.2 million to other federal agencies, used \$969.8 million to fund refund and drawback payments for trade activity.

Goal: Increase total revenue collections through electronic means to at least 90 percent.

Measured Results: CBP revenue collections through electronic means reached 91.1 percent.

CBP collections include tariff duty, user fees, IRS excise taxes, and other assessments. In FY 04, 91.1 percent of revenue collections were made through electronic means. Since FY 99, electronic collections increased over 13 percent. This increase was achieved by encouraging the trade community and other government agencies to use electronic means when making payments or transfers. Electronic payments are credited to Treasury accounts faster than cash and checks and much of the manual process associated with cash and check processing is not necessary when funds are received electronically.

Goal: Maintain or increase the percentage of commercial invoice payments made through EFT.

Measured Results: Public Law 104-134, the Debt Collection Improvement Act of 1996, requires federal payments to be made electronically allowing the cost and time savings to be recognized by both CBP and commercial entities. The accompanying chart identifies the incremental changes in commercial invoice payments made through EFT between FY 99 and FY 04. During this time period payments made to commercial entities via EFT increased over 25 percent and exceed 91 percent.

Providing CBP Mission Support and Shared Services

On March 1, 2003, the Homeland Security Act realigned various federal organizations to establish DHS. In June 2003, DHS brought together leadership and mission support representatives from CBP, USCIS and ICE to form a Tri-Bureau group. This group was tasked with identifying opportunities for sharing administrative/mission support services in order to deliver more efficient and effective services to all three bureaus. The group determined that not all administrative/mission support functions lend themselves to shared services arrangements. After determining the feasibility and ownership of these services, the group developed plans to realign administrative/mission support employees among CBP, USCIS and ICE to support a combination of shared, cross-servicing, and non-shared services arrangements.

The following are approaches that were implemented for administrative/mission support functions:

- (1) Shared Services among all three bureaus. One bureau provides services to the workforce of all three bureaus with the resources being aligned to the shared service provider.

- CBP is the service provider for all bureaus for Facilities Management and Acquisition, Fleet Management, Printing and Graphics, Health and Safety, Human Resource Management Services (including Employee Benefits) and CBP Forms Design, Management and Distribution.
- ICE is the service provider for Firearms and Training (Management and Supervisory Development).
- CIS is the service provider for Immigration Forms Management and Distribution and Records Management. CIS also provides Field Office Mail service for ICE and CBP.

(2) Shared Services among two bureaus. One bureau provides services to the workforce of one other customer bureau; the remaining bureau provides services to its own workforce.

- CBP provides facilities construction for ICE.

(3) Cross-Servicing. Where each bureau provides selected services to its own workforce, as well as to selected customers within other bureaus, for example:

- IT Infrastructure Support
- IT Applications Support
- Tactical Communications

(4) Self supporting individual bureaus for a given service. Each bureau provides services to its own workforce. These services include Procurement, Personal Property, Finance, Budget, Labor and Employee Relations (excluding Employee Benefits), Training Academies, Instructional Systems and Professional Development.

HRM, OF and OTD all have representatives participating in Shared Services groups that develop and monitor the shared services identified above. These services are documented in Service Level Agreements (SLA's). The SLA's include a detailed description of the service, associated costs, and performance expectations such as turnaround time, quantity and quality measures. The costs for each service are outlined in Reimbursable Agreements, which are part of the SLA package between the agencies.

Training and Development

CBP's corporate, centrally managed approach to training and education ensures that CBP training programs are responsive to the direction of CBP leadership and to the rapidly changing environment in the field. OTD provides the enterprise-wide perspective needed to give focus to training efforts supporting CBP's mission and strategic goals, and to meet the training needs of a diverse and dispersed 39,000 person workforce. OTD's 7 training components achieved record levels of productivity in developing and delivering new training in FY 04, especially as it applies to CBP's priority anti-terrorism (AT) mission.

Overall, as of the end of FY 04, CBP sponsored 422,207 training instances compared to 270,912 for FY 03, an increase of 55.8 percent from the previous year.

Anti-Terrorism (AT) Training

The events of September 11 instantly established AT as the top priority for the agency, and CBP shifted its training efforts to meet the needs of its frontline employees. CBP has three areas of emphasis for AT training:

- At the Ports
- Between the Ports
- Extending the Borders Outward

At the Ports

CBP's focus is to ensure that CBP Officers are properly trained to combat terrorism. Training at the ports generally focuses on the following major areas:

- Counter-Terrorism Response
- Non-Intrusive Inspection (NII) Technology
- CBP Officer including Cross-Training Initiatives
- Intelligence
- Trade Awareness
- Advanced Officer
- Field Coordination

Between the Ports

Between the ports, the focus is on developing and delivering AT training for our BP Agents. Some examples of the training conducted in this area are:

- AT Awareness Video
- AT Course for Border Patrol Agent Basic Training



A CBP officer conducts a night firing drill.

- AT Train the Trainer program for field training
- Muster Modules
- CBP National Targeting Center video for BP Agents
- AT Training for Supervisors

Extending the Borders Outward

The focus of training to support extending the borders outward is on CSI. CSI personnel participate in a variety of AT training courses prior to being deployed, including:

- CSI Orientation
- CSI Sea Cargo Targeting Training and Certification
- CSI Non-Intrusive Inspection (NII) Technology Training
- International Initiatives (e.g., EXBS, International Rail Inspection)

Nearly 300 officers have attended the 3-day CSI Orientation (formerly Pre-Deployment) training course covering such topics as C-TPAT, Border Security and Facilitation, the Terrorist Threat, Personal Security, and Counter-Intelligence Tactics. Approximately 450 officers attended the two-week course on Sea Cargo Targeting Training. Additional training for CSI Officers continues.

Workforce Integration Training

CBP transition training programs develop the expertise of its heritage and newly hired workforce in the POEs through specially tailored training modules. Design and development efforts have been extensive and delivery has begun across the country. The CBP Academy has completed the development of the new CBP Officer course, which includes In Port and On-the-Job training for the CBP Inspector graduates. Approximately 1,660 basic students have graduated. The course incorporates Immigration Law, Passenger and Trade Processing, Agriculture, Document Examination (Fraudulent Documents) and Anti-terrorism.

Training Facilities

Border Patrol Academy

On October 21, 2004, CBP Commissioner Robert C. Bonner dedicated the new CBP Border Patrol Academy in Artesia, New Mexico. This training facility consolidates all Border Patrol training assets at a primary facility, thus creating a cost efficient, comprehensive learning environment for Border Patrol agent education. By consolidating all of our tested methodologies and best practices, and creating one state-of-the-art facility, CBP is able to more effectively and efficiently provide a training environment for the delivery of professional mission-critical training to all Border Patrol agents. In the past, Border Patrol agents have been trained in several different locations in New Mexico, Texas, Alabama, Georgia and South Carolina. In FY 2004 the Border Patrol Academy trained 1,945 students in basic and advanced training programs.

CBP Academy

The CBP Academy provided basic, advanced and specialized training to 6,492 students in FY 2004. The CBP Academy, OFO and OIT created an innovative non-intrusive inspection system training curriculum that integrated classroom and hands-on system operation training at the CBP Academy with full stream-of-commerce operations at the ports of Savannah, Georgia and Charleston, South Carolina. This curriculum enabled students to practice their skills against actual targets in the operational environment accompanied by instructors and experienced operators.

Key Training Initiatives

- In collaboration with the Border and Transportation Security Directorate and internal CBP components, OTD developed and delivered Expedited Removal training for Border Patrol Agents.
- OTD is providing administrative oversight to Non-Intrusive Inspections (NII) training. In response to a critical need for re-training and re-certification of primary VACIS operators, OTD, OFO, and OIT have trained over 1,600 primary operators through a combination of refresher courses and a new core curriculum delivered at the CBP Academy and in the field. The CBP Academy supported and delivered 54 VACIS refresher classes during the first 2 quarters of FY 04 alone.
- OTD assisted OFO in developing and delivering two 3-day seminars in late 2003 on the implementation of the Bio-Terrorism Act (BTA) in partnership with the

FDA. Approximately 100 selected CBP officers participated in training to become field trainers. Those participants have since trained nearly 8,000 CBP officers to be commissioned as FDA Inspectors.

- OTD developed and released an Interim Use of Force and Firearms Policy specifically tailored to cover all of CBP law enforcement personnel.

Management Controls for Sensitive Property

- OTD successfully executed what is most likely the largest exchange of Federal firearms and body armor in U.S. history. Tens of thousands of firearms and body armor units were exchanged with ICE as armed officers were realigned into CBP and ICE according to the DHS reorganization plan. These exchanges took place with item-by-item visibility and the absolute accountability and control required by OTD. In addition, thousands of Officers were trained on CBP's firearms and body armor accountability policies and integrated into CBP's Firearms Inventory Tracking Systems (FITS). OTD also initiated the first CBP-wide firearms and body armor inventory to exhaustively account for the new inventory of nearly 65,000 firearms and body armor units.
- OTD contracted for the design and production of 42,000 new CBP badges for authorized personnel. Over 20,000 new badges have been distributed to CBP Officers, Supervisors, and Agriculture Specialists at field operations, air, land, and seaports throughout the U.S. New badges will be distributed to authorized Border Patrol employees in early FY 05.

Equal Employment Opportunity

During FY 04, EEO continued to implement innovative initiatives and reforms to enhance performance while refining the infrastructure to effectively service the new CBP. The EEO Office also ensured continued compliance with the Nation's civil rights laws.

The EEO Office developed and executed plans for the transition into DHS, while ensuring the continuity of complaints processing and other customs oriented services, i.e. training and conflict resolution. The Office realigned, oriented and integrated the new staff that transitioned into CBP.

The EEO Office aligned its strategic plan with CBP and DHS's strategic goals and objectives, identifying its primary goal as the managing and modernizing of CBP civil rights program across organizational components. Four sub goals—organizational excellence, conflict intervention, inclusive workplace, and accountability to the public—have driven the organization toward realizing its goal.

As a step to improve the efficiency and effectiveness of the Equal Employment Opportunity program, the EEO Office established the first ever Complaints Processing Center for the centralized processing of formal complaints of discrimination within CBP. The Center will be used to streamline and consolidate operating procedures in order to process equal employment opportunity disputes in a more timely and efficient manner.

The EEO Office has continued to facilitate increased resolution of workplace disputes through proactive training, early intervention and mediation. EEO staff members received intense technical training to improve upon the competencies required to help employees, applicants and managers to resolve issues. Also, full-time EEO specialists were assigned to provide efficient and effective EEO counseling services. Collateral-duty mediators were provided advanced training through the Federal Mediation and Conciliation Service. Using a variety of conflict resolution techniques and encouraging communication between the parties, resolution of complaints has increased, thereby enabling CBP personnel to focus on CBP's mission critical work.

During FY 04, the EEO Office designed and delivered training to over 1,100 employees. Some topics covered in the training include employee rights and responsibilities as they relate to employment discrimination laws, how to distinguish between discrimination, disagreements and disappointment, tools for assessing the best venue for addressing issues, and cultural awareness.

The EEO Office, in consultation with OTD, finalized the all-employee module of the World Class Training Initiative, an intranet-based program designed to provide a consistent, unified approach to training employees, managers and supervisors, executives, EEO practitioners, and employees, with Special Emphasis Program responsibilities. The World Class Training Initiative features an electronic resource room which links to other pertinent reference sites. The program is expected to be rolled out to the workforce during the third quarter of FY 05. Externally, EEO staff delivered training in a number of national forums, to include IMAGE national conference and Women in Federal Law Enforcement.

In the area of Affirmative Employment Programs, the EEO Office developed a plan to increase the employment of people with disabilities. The Office also integrated realigned INS and APHIS employees who served as Special Emphasis Program Managers. In addition, field offices developed plans for national observances and other local special events. The Intranet webpage was redesigned to provide more useful resources to employees, supervisors and managers addressing such topics as the EEO laws, complaints processing procedures, links to useful resources, and information on special events at the national and local levels.

Another initiative started in FY 04 was the partnership between CBP and the Howard University School of Law designed to advance CBP's partnership with Historically Black Colleges and Universities and Hispanic Serving Institutions. Through the agreement, law school students at the University can volunteer to work in OCC or the OR&R in exchange for course credit.

Information Technology

OIT provides integrated, comprehensive technical support to the mission of CBP. OIT provides information technology, research and development, scientific and forensic laboratory services, tactical communications support, and manages the Modernization program.

OIT activities during FY 04 supported the deployment of new systems designed to enhance border control, facilitate trade, and prevent terrorism. In addition, OIT continued to make significant improvements to the information technology infrastructure to increase the reliability, response time, availability, and security of information systems that support CBP's mission.

OIT Accomplishments and Highlights

In FY 04, OIT made progress in implementing a number of initiatives in support of CBP's mission and the Commissioner's goals. Some of the more significant accomplishments were:

- Expanded ACE as brokers, carriers and additional importers established accounts, bringing the total number of ACE accounts to over 180. These companies represented nearly 30 percent of the total value of FY 03 imports. It is estimated that for every dollar invested, ACE will return \$2.69 in benefits to CBP, or \$8.3 billion over the expected ACE lifecycle. Likewise, for the trade

community, ACE will return \$5.59 for every dollar invested, or a total of \$17.2 billion, bringing the combined total to \$25.5 billion.

- Completed a pilot of ACE's periodic payment feature. Widespread operational use among ACE participants was approved on August 25, 2004. For the first time in the 215-year history of the legacy U.S. Customs Service, importers are now able to obtain a statement for all entries on a monthly basis, and pay duties and fees monthly. New reporting features, ledger integration, notifications, alerts, and other enhancements were also added to the ACE Secure Data Portal.
- Achieved Level 2 on the Software Acquisition Capability Maturity Model® (SA-CMM®), becoming the first civilian government organization to receive this important acquisition process rating on a program-wide basis.
- Continued to make significant progress in achieving CBP's goal of screening all inbound traffic using radiation detection equipment deployed under the RPM program. During FY 04, a total of 175 RPMs were deployed at 26 sites (163 RPMs at 23 Northern Border locations and 12 RPMs at 3 Seaport locations). OIT received recognition for its initial deployment testing of the mobile RPM system, a self contained truck-mounted RPM that has been designed to work in a stationary or mobile mode. In addition, prototype testing of the Portal Radiation Inspection, Detection & Evaluation (PRIDE) system was successfully accomplished. PRIDE introduces teleforensic capability that enhances and complements the deployment of RPMs, RIIDs, and visual identification systems by providing connectivity between the POE and a central repository for radiation-interdiction data collection at the National Data Center. The system provides near-real-time availability of radiation data to approved users for immediate analysis, targeting, and response.
- Continued to support the deployment of technology required to implement CSI. Eleven additional ports were opened, bringing the total number of CSI ports to 34 throughout 17 countries. OIT also played a major role in coordinating with telecommunication providers in the U.S. and Greece to establish the CSI site in Greece in time for the 2004 Olympic games.
- Supported CSI through the Smart Box program, the objective of which is to seek, develop, test, and evaluate enabling technologies that will provide security capabilities for intermodal shipping containers. OIT created a test

bed to serve as a staging area for operational pilot studies in which intermodal shipping containers were outfitted with selected technologies and shipped in actual commerce to evaluate the efficacy of the technologies to detect container breeches. In addition, this year, OIT developed and tested two advanced container intrusion systems, developed a concept for six-sided intrusion detection using a fiber optic grid system and a wireless network, and conducted an in-depth economic and supply chain analysis with shippers in various market segments and trade lanes. OIT also conducted a large-scale test of a prototype Container Security Device in the operational shipping environment.



Using an electron microscope allows CBP technicians to examine the most miniscule elements of any item.

- Continued to expand CBP's use of non-intrusive inspection technology. OIT deployed 18 Mobile VACIS systems; 9 at land border ports and 9 at seaports; and deployed 12 PALLET VACIS systems; 6 at land border ports and 6 at seaports. In addition, OIT fielded 74 Busters and 297 Radiation Isotope Identification Devices.
- UAV flight operations began in June 2004. The project will use the lessons learned and refined mission/operational requirements gathered from ABCI to develop a long-term UAV solution that includes the acquisition, fielding and support of UAVs across selected United States border areas.
- Provided interfaces to the Interagency Border Inspection System and the APIS. This included processing software for airport primaries, creating interfaces to the IDENT fingerprint database, and presenting Department of State Non-Immigrant Visa data, including digital photos, as well as deployment of all hardware and software to 129 airports and seaports.
- Began targeting for vehicles and passengers at land border locations using the ATS. ATS is an Intranet-based enforcement tool that incorporates intelligence information and technologies to target suspect inbound and outbound shipments for examinations and passengers for inspection. The cargo (narcotics), anti-terrorism (outbound), and passenger versions of ATS support the NTC and analysis units in the field.
- Modified ATS to support new targeting requirements created by the Bioterrorism Act. Using data received by the Automated Commercial System from the FDA, ATS now provides the ability to target high-risk imported goods.
- In support of the Trade Act of 2002, developed software to capture air manifest data and the automatic capture of cargo traveling inbound. This Act requires advanced, electronic manifests for all modes of transportation at all ports. This expansion of capabilities will deliver the needed data, support the law, provide working interfaces to enforcement and targeting systems, and allow the trade to comply with the Act through existing, well-known interface methods. A pilot project with FedEx was also implemented in FY 2004 to screen and target express courier shipment data. This capability will be expanded to all FedEx hubs by the end of the 2004 calendar year.
- Initiated a program to detect, identify, and interdict chemical and biological threat agents at the border. Supported by the Applied Physics Laboratory at Johns Hopkins University, OIT subjected both laboratory instruments and portable (hand-held) sensors to rigorous live-agent and simulant testing under a variety of environmental conditions. CBP is the first organization to run comparative testing of instrument performance using trace levels of chemical warfare agents. The evaluation of biological and chemical agent sensor technologies continues; pilot site deployment at selected border crossings is planned.
- Implemented the 24/7/365 on-line Technical Data Assessment & Teleforensic Center. This Center assists CBP Officers in the U.S. and around the world to rapidly and accurately identify radiological, biological, and other WMDs and terrorist threats to our national security and the safety of U.S. citizens. During FY 04, the Center processed 1,023 calls for WMD scientific assistance. The Center provides similar support to other agencies such as the Coast Guard and ICE.

- Centralized fingerprint development and processing operations in the New Orleans laboratory. This new Center rapidly processes and identifies fingerprints for CBP Officers and ICE agents. This has helped to facilitate the prosecution of those who break U.S. laws.
- Continued to be involved in leading and supporting a number of joint initiatives in support of DHS tactical communications. These initiatives will help to provide a solution to the disparate communications systems hindering interoperability both internally among DHS agencies and externally between DHS and other federal, state, and local public safety agencies. This includes actively participating on the BTS Unified Tactical Communications Program (UTC) project team. The BTS-UTC team is formulating recommendations for addressing the combined tactical communications requirements within BTS Operational Elements.
- Established a project manager's education and certification program which enables DHS and Project Management Institute. This certification serves as an industry-wide hallmark of project management excellence and will lead to more predictable, higher quality information and technology solutions at the border.
- Initiated the 'Ask a Federal Librarian Service' to DHS employees worldwide. CBP librarians and federal information center staff went online in April with the ability to answer user questions, search databases, and send material directly throughout the department. The portal is accessible from CBPnet and DHS Online. Questions are asked through interactive chat, email, fax or telephone.

Within CBP a major accomplishment in FY 04 was the reorganization and integration of all CBP Tactical Communications maintenance functions under a single Tactical Communications Organization (TCO) managed by OIT. This involved standardizing tactical communications positions, policies and procedures throughout the agency. It also involved establishing a CBP Tactical Communications Advisory Committee facilitating direct inputs and program partnering with OFO, OBP and AMO. The TCO has also established the Wireless Applications Working Group, to begin a process of integrating various voice, data, image and video wireless projects within CBP.

An effort was also initiated to provide reliable communications for Inspectors who routinely perform search and seizure operations among passenger and cargo ships. This project involves the identification of alternative forms of wireless communications that may provide the desired level of effectiveness required by Inspectors to perform their duties safely and effectively. A specific configuration has been identified; field tests will be performed in five different areas of the country, including San Diego, CA, Houston, TX, New Orleans, LA, Miami, FL, and Newark, NJ.

FMFIA Summary

U.S. CUSTOMS AND BORDER PROTECTION

Department of Homeland Security

1300 Pennsylvania Avenue, N.W., Washington, D.C. 20229

Commissioner

October 18, 2004

MEMORANDUM FOR JANET HALE
UNDER SECRETARY FOR MANAGEMENT

THROUGH: ASA HUTCHINSON
UNDER SECRETARY
BORDER AND TRANSPORTATION SECURITY

FROM: Commissioner *Robert B. Goehry*

SUBJECT: Federal Managers' Financial Integrity Act and
Federal Financial Management Improvement Act
Fiscal Year 2004 Assurance Statements

As required by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA), I am forwarding to you my assurance statements for Section 2 and Section 4 relating to the overall management controls and controls over financial systems at U.S. Customs and Border Protection (CBP).

In preparing these statements, I have relied on information and statements provided to me by the Office of Finance, which has in turn relied on statements and information provided by senior managers at CBP.

CBP had three outstanding material weaknesses at the beginning of Fiscal Year (FY) 2004. Until CBP is able to close the existing deficiencies in the quality and adequacy of data provided by our financial accounting and reporting systems, I cannot provide reasonable assurance that CBP's overall controls and financial management systems were in conformance with standards prescribed by the Comptroller General of the United States during FY 04. Based on the current status of previously identified deficiencies in our core financial systems, we do not have reasonable assurance that the objectives of Section 4 of the FMFIA have been achieved, namely the conformance of our fiscal and administrative systems to the Government Accountability Office's principles and standards. CBP's financial management systems are not currently in compliance with federal financial management systems requirements, applicable federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

Although CBP is not yet compliant with FMFIA requirements, with the exception of the material weaknesses described in the attachments, I can state compliance with the control objectives of Section 2 of the FMFIA. Based on our annual self-assessments performed under the Federal Information Security Management Act, related acts, and other reviews of our information technology programs and security, I can state compliance with federal information technology standards and requirements, with the exception of the material weaknesses described in the attachments. With regard to CBP's performance data information, I can state with reasonable assurance that the measures reported as part of our performance plan are reliable and accurate.

CBP was not able to provide assurance that it was compliant with Government-wide systems standards after the inception of the Chief Financial Officers (CFO) Act in 1993, due to several material weaknesses in its systems. However, we did make significant progress in devising solutions for these systems deficiencies, obtaining necessary resources, and moving ahead with corrective action plans. These efforts resulted in the resolution of many weaknesses in our systems. We have made progress this year in addressing our core financial systems material weakness by continuing implementation of Systems Applications and Products (SAP) software which will facilitate many aspects of our financial and administrative systems. However, the ultimate resolution of the core financial systems weakness also depends on selected elements of CBP commercial and related systems modernization through the Automated Commercial Environment (ACE) project. ACE is a complex, large-scale project that is expected to continue for several years.

Based on our internal FMFIA reporting process, we do not have any new material weaknesses to report at this time. It is possible that the ongoing audit, currently being performed by KPMG for the Department of Homeland Security (DHS), will have additional findings that normally would be reported in this memorandum. However, any such findings have not yet been made available to us. Below is a brief synopsis of the progress we have made in dealing with the three open material weaknesses CBP had at the beginning of FY 04.

Drawback controls need to be strengthened.

The major area for improvement in drawback controls involved implementing a better statistical methodology for reviewing the processing of drawback claims so that the results of drawback testing can be statistically projected for analysis. Also, it was considered important to train all drawback program staff in the new procedures for ensuring effective internal controls over the drawback process. CBP's drawback staff worked with a resident statistician to determine statistically valid sampling procedures and correct size samples for drawback testing. As a result, CBP established a statistically valid sampling methodology in June 2004. CBP is currently in the process of finalizing the sampling methodology for implementation. Drawback Specialist Training at the Federal Law Enforcement Training Center occurs every year. The next training class is scheduled for March 2005. This class will include procedures for the new statistically valid sampling methodology.

Information Technology system logical access and software maintenance security controls need improvement.

In its FY 03 audit work, the KPMG verified previous findings that network and host-based system configuration vulnerabilities continue to exist, which can potentially be used to compromise CBP system security. Initially, the KPMG identified deficiencies in password management, logical access controls over data files, application programs, and computer-related facilities and equipment. Nine specific recommendations were made to correct these deficiencies. CBP has implemented eight of the nine recommendations to resolve this issue. Taken as a whole, the completion of eight of the nine milestones constitutes significant progress towards the resolution of this weakness. As such, we would like to recommend that the issue be downgraded from a Material Weakness to a Reportable Condition, as the ninth and final milestone requires action by the DHS Chief Information Officer. DHS is expected to issue a new network architecture structure. We anticipate that this issue will be addressed by DHS as it works out the integration issues of all of the organizational entities under its domain.

Core financial systems need to be improved and integrated. The systems do not provide complete and accurate information for financial reporting.

CBP reported a material weakness in its core financial system in 1993. Systems were out of date and not suited to accomplish the financial reporting requirements of the CFO Act. The correction of this material weakness involved two separate but interrelated efforts – modernization of commercial and related systems through the ACE and deployment of SAP software. The ACE development was significantly delayed because of difficulties in obtaining an adequate and reliable funding stream. Plans and funding proposals were discussed over a number of years. However, the project was not funded. Beginning in 1997, CBP submitted requests for appropriated funds for systems modernization. Funds were finally received in FY 2001, and funding continued in subsequent fiscal years. A contract was made with a consortium of private sector firms – called the eCustoms Partnership – to proceed with a modernization plan. A central piece of the plan, which would address the core financial weakness, was to create a subsidiary ledger, which would then be interfaced with the general ledger. Forty-one managed accounts were selected to participate in a pilot for the ACE modernization effort. We have deployed an ACE portal and final deployment of a customer-based accounts receivable ledger and designated brokers to the 41 managed accounts has also occurred. We have also expanded periodic payment capabilities to all trade accounts approved by CBP for participation in ACE. A program plan governing the timing of long-term releases for the ACE project has been developed. The project is expected to be completed and deployed by 2011.

The deployment of SAP software has continued according to program plans. Release 1 of SAP was implemented in April 2002. Release 2 was implemented on October 8, 2003. Release 3 is now scheduled for implementation in October 2004. It is anticipated that the deployment of Release 3 of SAP, along with use of the subsidiary ledger (being developed as part of ACE) for a material dollar value of accounts, will be sufficient to reduce the financial core material weakness to a reportable condition.

Attached are Corrective Actions, Issues and Milestones Reports for each material nonconformance, as requested. If you have any questions regarding this matter, please contact me or have a member of your staff contact Mr. Richard Balaban, Assistant Commissioner, Office of Finance, at (202) 344-2300.

SECTION 1: OPEN MATERIAL WEAKNESSES

Attachment A

AS OF SEPTEMBER 30, 2004

FMFIA Section* (2, 4A, or 4F)	Bureau and Control Number	Title of Material Weakness:	Description of Material Weakness:	Major Milestones	Milestone Dates	
					Original Due Dates	Current Due Dates
2	CBP-02-2	Drawback controls need to be strengthened.	Because Customs Automated Commercial System (ACS) cannot compare entry and export information electronically, Customs relies on a risk-based approach to review drawback claims. However, Customs risk-based selectivity process is not adequate to allow for adequate measurement and statistical projection of the result of the control process.	1. Create a statistically valid methodology for reviewing claims 2. Complete training for drawback specialists 3. Update Drawback Handbook	6/30/02 4/30/03	✓07/30/04 ✓01/31/04 12/31/04
4A	CBP-93-1	Core financial systems need to be improved and integrated. The systems do not provide complete and accurate information for financial reporting.	Customs core financial systems did not provide certain financial information necessary for managing operations. Also, the financial systems did not capture all transactions as they occurred during the year, did not record all transactions properly, and were not fully integrated. Additionally, the systems did not always provide for essential controls with respect to override capabilities. As a result, extensive manual procedures and analyses were required to process certain routine transactions and prepare year-end financial statements.	1. Strengthen ACE software acquisition management. 2. Rigorously analyze alternative approaches to building the ACE. 3. Implemented Release 1 of the software deployment of the SAP/R3 software package. 4. Develop requirements specification set (RSS) for establishing accounts receivable subsidiary ledger. 5. Develop RSS for initial interface of subsidiary ledger to general ledger. 6. Select 40 managed accounts to participate in ACE. 7. Deploy ACE portal for 40 managed accounts. 8. Implement Release 2 of SAP (Procure & Asset Mgmt. & Core Financials to support ACE). 9. Develop revised program plan governing long term ACE releases. 10. Final deployment of customer based accounts receivable subsidiary ledger to 40 accounts & designated brokers. 11. Implement Release 3 (remaining core financials) of the SAP/R3 software package.	4/7/99 9/30/01 10/1/01 2/12/02 8/9/02 9/19/02 2/28/03 10/1/03 6/30/03 12/03 10/01/04	✓4/27/01 ✓9/28/01 ✓4/28/02 ✓3/5/02 ✓10/11/02 ✓9/19/02 ✓6/12/03 ✓10/8/03 In final mgmt. review 7/31/04 10/01/04

✓ = Completed

SECTION 2: The List of Material Weaknesses Reduced to Non-Material Status During FY 2004

AS OF SEPTEMBER 30, 2004

FMIA Section* (2, 4A, or 4F)	Bureau and Control Number	Title of Material Weakness:	Description of Material Weakness:	Validation Process Used/Results Achieved**	Date Closed
2	CBP-94-2	Inability to timely restore critical systems in case of disaster or disruption of business operations.	Since 1994, Customs has reported a weakness in planning and preparing for disaster recovery at our National Data Center. Customs submitted proposals and requests for funding to correct this weakness. In FY 2002, Customs received funding to establish a backup capability by contracting for a Commercial Recovery Facility (CRF). In the summer and fall of 2002, comprehensive tests were conducted to determine the capability to recover system files and data files within a desired 24-hour period.	All milestones for this reportable condition have been completed.	6/19/03
2	CBP-02-3	Weaknesses in IT system logical access and software maintenance security controls.	Network and host-based system configuration vulnerabilities exist that can potentially be used to compromise system security. Improvements needed in password policies and procedures. The effect of a combination of identified vulnerabilities is the potential for unauthorized access to sensitive applications and data.	CBP considers this material weakness to have been resolved by the completion of eight of the nine recommendations addressed to handle this issue. This constitutes significant progress towards the resolution of this weakness. The final recommendation is an action to be taken by DHS.	TBD

*Section 2 = Internal Control Material Weaknesses

Section 4A = Administrative Systems Material Non-conformances

Section 4F = Fiscal Systems Material Non-conformances

**Validation Process Used/Results Achieved: Indicate how you have determined that the desired results were accomplished, thereby eliminating the material weakness conditions.

Fiscal Year 2004 Financial Statements

Customs and Border Protection
Consolidated Balance Sheet
 As of September 30, 2004
 (Dollars in Thousands)
 Unaudited

	<u>2004</u>
ASSETS (Note 2)	
Intra-governmental Assets	
Fund balance with Treasury (Note 3)	\$ 6,706,752
Accounts receivable (Note 5)	11,290
Receivable due from Treasury – refund and drawback (Note 5)	169,470
Advances and prepayments	<u>32,285</u>
Total Intra-governmental Assets	<u>6,919,797</u>
Cash and other monetary instruments (Note 4)	8,245
Accounts receivable, net (Note 5)	135,873
Duty and trade related receivables, net (Note 6)	1,285,697
Advances and prepayments	2,232
Inventory and related property (Note 7)	10,483
Property, plant and equipment, net (Note 8)	<u>1,529,105</u>
TOTAL ASSETS	<u><u>\$ 9,891,432</u></u>
LIABILITIES (Note 9)	
Intra-governmental Liabilities	
Accounts payable	174,573
Due to the General Fund	1,242,766
Employer benefits and taxes	26,247
Advances from others	<u>5,324</u>
Total Intra-governmental Liabilities	<u>1,448,910</u>
Accounts payable	214,727
Refunds payable (Note 10)	144,382
Advances from others (Note 10)	3,054,207
Payroll and benefits (Note 11)	299,831
Workers' compensation	503,741
Capital leases and software license agreements (Note 13)	88,334
Injured domestic industries (Note 14)	331,605
Other (Note 12)	<u>36,724</u>
TOTAL LIABILITIES	<u>6,122,461</u>
Commitment and contingencies (Note 15)	
NET POSITION	
Unexpended appropriations	2,065,894
Cumulative results of operations	<u>1,703,077</u>
TOTAL NET POSITION	<u>3,768,971</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 9,891,432</u></u>

The accompanying notes are an integral part of these statements.

Customs and Border Protection
Statement of Custodial Activity
 For the Years Ended September 30, 2004
 (Dollars in Thousands)
 Unaudited

	<u>2004</u>
SOURCES OF CUSTODIAL REVENUE AND COLLECTIONS	
Revenue Received:	
Duty	21,234,665
User fees	897,860
Excise taxes	2,271,162
Fines and penalties	53,147
Interest	9,939
Other	3,154
Total Revenue Received	<u>24,469,927</u>
Less: Refunds and other payments	<u>(969,756)</u>
Net Revenue Received	<u>23,500,171</u>
Accrual Adjustment	<u>8,819</u>
TOTAL CUSTODIAL REVENUE	<u>23,508,990</u>
DISPOSITION OF REVENUE RECEIPTS	
Amounts Transferred:	
Treasury General Fund Accounts	23,184,852
U.S. Department of Agriculture	77,410
Retained by CBP	53,990
Other Federal agencies	22,785
Government of Puerto Rico	27,207
Government of the U.S. Virgin Islands	900
Non-federal other	133,027
Accrual adjustment	<u>8,819</u>
TOTAL DISPOSITIONS OF REVENUE RECEIPTS	
NET CUSTODIAL REVENUE ACTIVITY	<u><u>\$23,508,990</u></u>

The accompanying notes are an integral part of these statements.

Customs and Border Protection
Notes to Financial Statements
 Unaudited

1. Summary of Significant Accounting Policies

Reporting Entity*

CBP, with headquarters in Washington, D.C., was created on March 1, 2003, and is a bureau of the U.S. Department of Homeland Security (DHS). CBP is the single unified border agency in the U.S. whose priority mission is the prevention of terrorist and terrorist weapons from entering the U.S. CBP is also responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. CBP meets these responsibilities by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the U.S., (2) assessing and collecting duties, taxes, and fees, on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the U.S. on behalf of Federal agencies and/or in conjunction with various state, local, and other Federal agencies and foreign countries.

Substantially all of the duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than two percent of revenues collected) directly to other Federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

Operating and other costs incurred resulting from the activities described above are funded principally through congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred are offset by appropriated funds that are recorded as financing sources or by reimbursable revenue, user fee revenue, or other financing sources. These operational activities are reflected in the entity accounts of CBP.

Basis of Accounting and Presentation

These financial statements consist of the balance sheet and the statement of custodial activity, as prescribed by OMB Bulletin No. 01-09, which provides the statement form and content requirements. While these financial statements have been prepared in accordance with the formats prescribed by OMB, they are different from the financial reports used to monitor and control budgetary resources, which are also prepared from CBP accounting records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

The balance sheet is reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. CBP's non-entity revenue and refunds are reported on the statement of custodial activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

* The FY 04 financial statements do not present comparative FY 03 amounts. Prior years' financial statement reporting reflected legacy customs only.

Customs and Border Protection
Notes to Financial Statements
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Assets and Liabilities

Intra-governmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments.

Fund Balance with Treasury

Entity fund balances with Treasury are the amounts remaining as of fiscal year-end from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity fund balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes and fees; and, other non-entity amounts to be distributed to the General Fund and other Federal accounts in a future period.

Cash and Other Monetary Instruments

Undeposited collections represent monies to be distributed in a future period. A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit and distribution of funds occurs in a future period. Monetary instruments are held by CBP in lieu of an importer/broker filing a surety bond. Corresponding liabilities are recorded for amounts expected to be allocated in future periods to Federal agencies.

Accounts Receivable

Intra-governmental accounts receivable represent amounts due from Federal agencies. These receivables are expected to be fully collected. A portion of these receivables is based on a 3-year average of prior years accounts receivable. Accounts receivable from reimbursable services and user fees represent amounts due from non-federal sources for services performed. These receivables are net of amounts deemed uncollectible which are determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. The user fee receivable is based on a calculated estimate using historical user fee receivables.

Duty and Trade Related Receivables

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. CBP's accounting policy for non-entity receivables is described in more detail in Note 6, Duty and Trade Related Receivables, Net.

Advances and Prepayments

Intra-governmental advances and prepayments consist of amounts paid to Federal agencies prior to CBP's receipt of goods and services. All other advances and prepayments consist of employee travel and salary advances, prepaid rent, advances to grantees.

Customs and Border Protection
Notes to Financial Statements
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Inventory and Related Property

Inventory consists of aircraft parts and materials to be consumed in CBP's operations. Aircraft parts and materials are recorded at average unit cost. This method approximates actual acquisition costs. Disclosures are also made for prohibited, seized, and forfeited property and currency resulting from enforcement activities. Prohibited items, such as counterfeit goods, narcotics, or firearms, are disposed of or destroyed by CBP. An annual analysis of CBP's seized and forfeited property is disclosed in Note 7, Inventory and Related Property.

Property, Plant and Equipment

Prior to October 1, 1995, CBP capitalized property, plant and equipment with an acquisition value of \$5,000 or greater, and a useful life of 2 years or greater. Beginning October 1, 1995, CBP capitalizes property, plant and equipment with an acquisition value of \$50,000 or greater, and a useful life of 2 years or greater. As of October 1, 2000, CBP implemented Statement of Federal Financial Accounting Standard (SFFAS) No. 10 – *Accounting for Internal Use Software*. SFFAS No. 10 requires the capitalization of all internal use software, including commercial off-the-shelf (COTS), contractor developed and internally developed software. As a result, CBP began capitalizing costs associated with the development of internal use software. In addition, CBP implemented the SFFAS No. 10 recommendation to apply capital lease accounting concepts to software license fee agreements that give CBP the “right to use” the software. Prior to October 1, 2000, costs relating to the development of internal use software and “right to use” license agreements were expensed. On March 1, 2003, CBP transferred-in property, plant, and equipment that was capitalized by the former Immigration and Naturalization Service with an acquisition value of \$25,000 or greater.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50,000 for improving or rebuilding an asset and that increase an asset's useful life are capitalized. Prior to October 1, 1995, expenditures greater than \$5,000 for improving or rebuilding an asset and that increased an asset's useful life were capitalized.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 5 to 20 years for equipment and software, 2 to 30 years for leasehold improvements, and 30 years for buildings and structures. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

Commercial/Travel Payable

A liability is recorded for an accounts payable accrual from commercial/travel activities. The liability is determined using a calculated estimate. This estimate is based on a ratio developed using historical subsequent disbursements and undelivered orders and applying the ratio to the undelivered orders at the end of the fiscal year.

Awards and Foreign Expenses Payable

A liability is recorded for foreign language awards and expenses incurred by Attachés at American Embassies worldwide. The liability is based on an estimate developed using historical expenses.

Customs and Border Protection
Notes to Financial Statements
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Other Non-Entity Items in CBP Custody

CBP has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or a related note as the amount is not significant, but does represent a fiduciary responsibility of CBP.

Accrued Annual, Sick, and Other Leave and Compensatory Time

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the balance sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken.

Pension Costs, Other Retirement Benefits, and Other Post-employment Benefits

Most CBP employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). CBP contributes 8.51 percent of base pay for regular employees, and 9.01 percent for law enforcement agents. Employees hired after December 31, 1983 are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employee's matching share for Social Security. For the FERS basic benefit CBP contributes 10.7 percent of base pay for regular employees, and 22.7 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of \$15,000 in certain overtime earnings for Fiscal Year 2004.

CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM). As of September 30, 2004 contributions of \$399.4 million and \$193.2 million were made to these plans. In addition, CBP recorded an additional expense of \$69.1 million as of September 30, 2004 for employee pension benefit costs in excess of CBP contributions.

Similar to Federal retirement plans, OPM, rather than CBP, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLI). CBP is required to report the full cost of providing other retirement benefits (ORB) for its retired employees as well as reporting contributions made for active employees. As of September 30, 2004, CBP ORB expense for retired employees totaled \$145.9 million. As of September 30, 2004, CBP contributions for active employees participating in the FEHBP and FEGLI programs were \$192.9 million.

An expense and liability for other post-employment benefits (OPEB), which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents is also recognized.

Customs and Border Protection
Notes to Financial Statements
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Workers' Compensation

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (Labor), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. Reimbursement to Labor on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to CBP as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, the actuarial liability estimate includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by Labor, DHS allocates the actuarial liability to its bureaus and department offices based on the payment history for the bureaus and department offices. The net present value of estimated payments is not covered by budgetary resources and will require future funding.

Unexpended Appropriations

Unexpended appropriations represent the amount of CBP unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded or withdrawn.

Cumulative Results of Operations

Cumulative results of operations primarily represents the excess of user fee revenues over related expenses. It also reflects the net investment in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation, and contingent liabilities.

Statement of Custodial Activity

The significant types of custodial revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.
- User fees: amounts designed to maintain United States harbors, and to defray the cost of other miscellaneous service programs.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal Government.
- Fines and penalties: amounts collected for violations of laws and regulations.

Customs and Border Protection
Notes to Financial Statements
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- Refunds: payments made to importers/exporters is primarily identified when the import entry is liquidated, a process in which CBP makes final determination of duties, taxes, fees and interest owed on the entry and compares it to the estimated amount previously determined by and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax, or fee collection rather than from the Refunds and Drawback account.
- Drawback: a remittance, in whole or in part, of duties, taxes, or fees. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant has up to six or eight years from the date of importation to file for drawback.

An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable.

CBP will also take into custody, without risk or expense, merchandise termed “general order property,” which for various reasons cannot be legally entered into the U.S. commerce. CBP’s sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If general order property remains in CBP’s custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it is considered unclaimed and abandoned and can be sold by CBP at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury.

2. Non-Entity Assets

Non-entity assets as of September 30, 2004, consists of the following (in thousands):

	<u>2004</u>
Intra-governmental	
Fund balance with Treasury	\$ 3,335,838
Accounts Rec. – Refund & Drawback	<u>169,470</u>
Total Intra-governmental	3,505,308
Cash and other monetary instruments	7,243
Duty and trade related receivables, net	1,285,697
Property, plant and equipment	<u>7,695</u>
Total Non-Entity Assets	4,805,943
Total Entity Assets	<u>5,085,489</u>
Total Assets	<u><u>\$ 9,891,432</u></u>

Customs and Border Protection
Notes to Financial Statements
 Unaudited

3. Fund Balance with Treasury

Fund balance with Treasury as of September 30, 2004, consists of the following (in thousands):

2004	Entity	Non-Entity	Totals
Appropriated Funds	\$ 2,418,102	\$ 95	\$ 2,418,197
Trust Funds	17,877	1,630	19,507
Special Funds	931,555	375,701	1,307,256
Deposit Funds	3,380	2,958,412	2,961,792
Totals	<u>\$ 3,370,914</u>	<u>\$ 3,335,838</u>	<u>\$ 6,706,752</u>

Status of Fund Balance with Treasury as of September 30, 2004, consists of the following (in thousands):

2004	Entity	Non-Entity	Totals
Unobligated balance available	\$ 860,753	\$ 3,335,838	\$ 4,196,591
Unobligated balance unavailable	31,384	--	31,384
Obligated balance not yet disbursed	1,839,137	--	1,839,137
Restricted unobligated funds	639,640	--	639,640
Totals	<u>\$ 3,370,914</u>	<u>\$ 3,335,838</u>	<u>\$ 6,706,752</u>

Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by CBP. CBP is required to maintain \$30 million in its User Fees Account. Also, an additional \$640 million of the User Fees Account balance is restricted by law in its use to offset costs incurred by CBP until made available as provided in Appropriation Acts. As of September 30, 2004, CBP User Fees Account contained approximately \$911.4 million; CBP's services at Small Airports account contained approximately \$3.6 million; and the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$16.4 million.

The entity trust fund balances result from CBP authority to use the proceeds from general order items sold at auction to offset specific costs incurred by CBP relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased.

The non-entity appropriated fund balance represents permanent, indefinite appropriations to pay refunds and draw-back claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with CBP custodial activity of collecting revenue on behalf of the Federal government.

The non-entity special fund balance results from CBP authority to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries.

The non-entity deposit fund balance represents collections for which final disposition has not been completed.

Customs and Border Protection
Notes to Financial Statements
 Unaudited

4. Cash and Other Monetary Instruments

Cash and other monetary instruments as of September 30, 2004, consists of the following (in thousands):

2004	Entity	Non-Entity	Totals
Imprest Funds	\$ 101	\$ --	\$ 101
Undeposited Collections	901	5,863	6,764
Monetary Instruments	--	1,380	1,380
Totals	<u>\$ 1,002,</u>	<u>\$ 7,243</u>	<u>\$ 8,245</u>

Undeposited collection balances represent timing differences between when cash relating to duties, taxes, fees, and other trade related collections are received and when the distribution of funds occurs. Cash can either be distributed to the General Fund, other Federal agencies, other governments, or returned to the importer/broker. The monetary instruments represents instruments importers/brokers provide to CBP in lieu of obtaining surety bonds.

5. Accounts Receivable, Net

Intra-governmental Accounts Receivable

Accounts receivable due from other Federal agencies, as of September 30, 2004, totals \$11 million and are considered fully collectible.

The \$169 million receivable due from Treasury, as of September 30, 2004, represents amounts to be provided by Treasury to fund accrued liabilities.

Accounts Receivables, Net

Receivables from reimbursable services are recognized for work or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. As of September 30, 2004, reimbursable service receivables total \$13 million and are considered fully collectible.

User fees are collected for inspectional processing of air and sea passengers and loaded railroad cars. Receivables accrue for airline and vessel fees on a quarterly basis and accrue for railroad fees on a monthly basis. Payment is due thirty days subsequent to the end of the quarter for airline and vessel fees or sixty days subsequent to the end of the month for railroad fees. As of September 30, 2004, user fee receivables total \$148 million and are net of uncollectible amounts totaling \$26 million.

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6. Duty and Trade Related Receivables, Net

Receivables as of September 30, 2004, are as follows (in thousands):

Receivable Category	2004		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 1,036,974	\$ 95,263	\$ 941,711
Excise Taxes	73,235	1,859	71,376
User fees	79,904	1,184	78,720
Fines/penalties	798,171	744,873	53,298
Interest	115,581	102,466	13,115
Anti-Dumping/ Countervailing Duties	269,427	142,050	127,377
Refunds and drawback	526	426	100
Totals	<u>\$ 2,373,818</u>	<u>\$ 1,088,121</u>	<u>\$ 1,285,697</u>

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, fees. In FY 2004, CBP began implementing periodic monthly payment that requires payment of estimated duties, taxes, and fees on the 15th day of the month following release. A receivable of \$1.1 billion was recorded for 888,207 entries for merchandise released into commerce on or before September 30, 2004, of which \$25 million related to importers using the periodic monthly payment. It is CBP policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable.

CBP import specialists review selected entry summaries to determine whether importer estimates of duties, taxes, and fees are accurate or whether additional (supplemental) amounts are owed and should be billed. CBP regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date to file for a review of the application by the Commissioner of CBP. Consequently, supplemental accounts receivable balances are only recorded on outstanding claims when the protest period has elapsed or when a protest decision has been rendered in CBP favor.

The Entry Reconciliation Program, implemented October 1, 1998, allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the United States commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the United States commerce, which finalizes the entry data, and makes the appropriate financial and statistical adjustments. CBP has 1,997 reconciliation entries associated with over 591 thousand entry summaries. Until these reconciliation entries are liquidated, CBP cannot determine whether additional duties or fees are due from the importer.

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A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. As of September 30, 2004, CBP had 4865 fines and penalty cases recorded as receivables. CBP is also tracking another 20,749 cases, for which a receivable was not established because: (1) the petition period had not expired; or (2) CBP had not reached agreement (relief granted or denied or court settlement) with the importer or surety as to the amount of damages (fines) or penalties owed. For the 20,749 cases still in petition phase as of September 30, 2004, CBP identified approximately \$50 million as “actual loss of duties.”

7. Inventory and Related Property

Operating Parts and Materials

Operating parts and materials consist of parts and materials held for future consumption to repair and maintain CBP aircraft and vessels used in enforcement activities.

Operating parts and materials as of September 30, 2004, consists of the following (in thousands):

	2004
Aircraft	\$ 9,938
Vessels	545
Totals	<u>\$ 10,483</u>

Parts and materials acquired without reimbursement and consumed during the fiscal year ended September 30, 2004, totaled \$6.8 million. When ultimately consumed in CBP operations, an operating expense is recorded.

Seized Property and Currency

Seized property results principally from CBP criminal investigations and passenger/cargo processing. Seized items are not considered assets of CBP and are not reported as assets in CBP financial statements. These items include contraband and counterfeit/prohibited items such as drugs and weapons that have no recorded value. Under the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property, forfeited and seized property held by CBP are disclosed on a consolidated basis in the financial statements of the Treasury Forfeiture Fund. Additionally as required by SFFAS No. 3, CBP, as the seizing agency, is required to account for the seized property until the property is forfeited, returned, or otherwise disposed.

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Analysis of Change in Material Non-Valued (Prohibited) Seized Property

Category	Balance October			New Seizures			Remissions		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	330	725	—	560,809	1,233,780	—	—	—	—
Cocaine	153	336	—	36,632	80,591	—	—	—	—
Heroin	21	47	—	1,591	3,499	—	—	—	—
Firearms	—	—	7,757	—	—	3,830	—	—	3,145
Pomography	—	—	177	—	—	353	—	—	5
TOTALS	504	1,108	7,934	599,032	1,317,870	4,183	—	—	3,150

This schedule is presented for material non-valued (prohibited) seized property only. These items are retained and ultimately destroyed by Customs and Border Protection, and are not transferred to the Treasury Forfeiture Fund. The balances for cannabis, cocaine and heroin are presented by weight seized. The ending balance for firearms includes only those seized items that can actually be used as a firearm.

Analysis of Change in Material Non-Valued (Prohibited) Forfeited Property

Category	Balance October 1			New Forfeitures			Transfers		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	113,532	249,770	—	561,551	1,235,412	—	6,114	13,451	—
Cocaine	16,970	37,334	—	36,630	80,586	—	298	656	—
Heroin	2,978	6,550	—	1,597	3,514	—	8	18	—
Firearms	—	—	1,339	—	—	634	—	—	1,699
Pomography	—	—	80	—	—	367	—	—	—
Totals	133,480	293,654	1,419	599,778	1,319,512	1,001	6,420	14,125	1,699

This schedule is presented for material non-valued (prohibited) forfeited property only. These items are retained and ultimately destroyed by Customs and Border Protection, and are not transferred to the Treasury Forfeiture Fund. The balances for cannabis, cocaine and heroin are presented by weight seized. The ending balance for firearms includes only those forfeited items that can actually be used as a firearm.

New Forfeitures			Adjustment			Balance September 30		
Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
561,551	1,235,412	—	2,588	5,694	—	2,176	4,787	—
36,630	80,586	—	(11)	(23)	—	144	318	—
1,597	3,514	—	3	7	—	18	39	—
—	—	634	—	—	(20)	—	—	7,788
—	—	367	—	—	(25)	—	—	133
<u>599,778</u>	<u>1,319,512</u>	<u>1,001</u>	<u>2,580</u>	<u>5,678</u>	<u>(45)</u>	<u>2,338</u>	<u>5,144</u>	<u>7,921</u>

Destroyed			Adjustments			Balance September 30		
Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
521,349	1,146,967	—	(48,963)	(107,715)	—	98,657	217,049	—
34,971	76,936	—	(983)	(2,160)	—	17,348	38,168	—
13,980	30,756	—	11,958	26,309	—	2,545	5,599	—
—	—	39	—	—	62	—	—	297
—	—	414	—	—	4	—	—	37
<u>570,300</u>	<u>1,254,659</u>	<u>453</u>	<u>(37,988)</u>	<u>(83,566)</u>	<u>66</u>	<u>118,550</u>	<u>260,816</u>	<u>334</u>

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8. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2004, consists of the following (in thousands):

Categories	2004			
	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Aircraft	12 to 20	\$ 75,914	\$ 21,561	\$ 54,353
ADP Equipment	5	180,500	64,741	115,759
Internal Use Software	5	221,492	63,168	158,324
Internal Use Software-in-Development	N/A	283,382	--	283,382
Vehicles	6	332,697	209,070	123,627
Vessels	5 to 10	4,683	1,716	2,967
Land	N/A	5,801	0	5,801
Structures, Facilities (a)	30	273,602	49,854	223,748
Leasehold Improvements	2 to 30	171,943	34,521	137,422
Construction in Progress	N/A	343,176	--	343,176
Assets under Capital Lease	5	9,605	9,480	125
Office Equipment and Other	5	226,239	145,818	80,421
Totals		<u>\$ 2,129,034</u>	<u>\$ 599,929</u>	<u>\$ 1,529,105</u>

(a) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of \$534 thousand.

9. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations. The September 30, 2004, liabilities not covered by budgetary resources consists of the following (in thousands):

	2004
Intra-governmental accounts payable	\$ 108,570
Workers' compensation	503,741
Payroll and benefits	187,098
Capital leases and commercial software license agreements	88,334
Other	<u>9,980</u>
Total Liabilities Not Covered By Budgetary Resources	897,723
Total Liabilities Covered By Budgetary Resources	<u>5,224,738</u>
Total Liabilities	<u>\$ 6,122,461</u>

The intra-governmental accounts payable amount is the accrued workers' compensation liability to the U.S. Department of Labor. The workers' compensation amount is the actuarial liability.

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10. Refunds Payable & Advances from Others

Refunds payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 2004, accrued liability consists of the following (in thousands):

	2004
Refunds	\$ 115,489
Drawback claims	28,893
Total	<u>\$ 144,382</u>

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes, and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated average was used to determine a ratio for estimating the receivable and payable to be recorded. Using this average, CBP has estimated \$13.1 million as a payable.

Advances from Others

Advances from others includes \$2.9 million of unliquidated anti-dumping/countervailing duties.

11. Payroll and Benefits

The payroll and benefits liability as of September 30, 2004, consists of the following (in thousands):

	2004
Payroll	\$ 109,628
Benefits	3,105
Annual and other leave liability	187,098
Total	<u>\$ 299,831</u>

12. Other Liabilities

Other liabilities as of September 30, 2004, consists of the following (in thousands):

	2004
Probable contingencies (Note 15)	\$ 35,263
Conveyance, passenger, fees and other	1,461
Total	<u>\$ 36,724</u>

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13. Leases

Operating Leases

CBP leases various facilities and equipment under leases accounted for as operating leases. The lease expense under these arrangements totaled \$242 million for the year ended September 30, 2004.

The leased items consist of offices, warehouses, vehicles, and other equipment. Much of the office space occupied by CBP is either owned by the Federal government or is leased by the General Services Administration (GSA) from commercial sources. CBP is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique space only for CBP operations. However, it is expected that CBP will continue to occupy and lease office space from GSA in future years and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease amounts paid to GSA during fiscal year 2004 were \$241 million.

As of September 30, 2004, there are no future minimum lease commitments under non-cancelable operating leases for equipment.

Capital Leases and Commercial Software License Agreements

CBP has a number of capital lease and software license fee agreements primarily involving mainframe software licenses. The liabilities associated with these capital lease and software license agreements are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 2004, the aggregate capitalized cost of the agreements still subject to lease is \$141.2 million. For FY 2004, the capital lease agreements are included in the total assets acquired under capital lease in the amount of \$9.6 million. As of September 30, 2004, the aggregate cost of the license agreements capitalized is \$131.6 million. These agreements are included in the capitalized Software. Certain license agreements are cancelable upon certain funding conditions.

	2004		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Machinery & Equipment	\$ 141,238	\$ 61,526	\$ 79,712

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Future minimum lease payments under the capitalized leases and commercial off-the-shelf license agreements and the present value of the minimum lease obligation as of September 30, 2004, is as follows (in thousands):

FY	2004
2005	\$ 19,157
2006	17,981
2007	17,981
2008	17,981
2009	17,981
Beyond 2009	<u>17,981</u>
Total future minimum license	109,062
Less: Imputed interest	<u>20,728</u>
Total net present value of software license agreements	<u><u>\$ 88,334</u></u>

Substantially all of the net present value of capital lease obligations and software license agreements are expected to be funded from future sources.

14. Injured Domestic Industries

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in Fiscal Year 2001 calls for CBP to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries. During Fiscal Year 2004, CBP collected \$332 million in AD/CV duty and recorded the liability.

15. Commitments and Contingencies

CBP is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) CBP appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgement funds maintained by Treasury; or (3) CBP salary and expense appropriation. It is the opinion of CBP management, that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.

CBP is involved in various actions incidental to its operations. The probable and reasonably possible liabilities as of September 30, 2004, consist of the following (in thousands):

Funded By:	2004	
	Probable	Reasonably Possible
CBP Appropriations	\$ 5,498	\$ 76,121
Refund & Drawback Appropriation	25,282	54,220
Other Claim/Judgment Funds	4,483	73,935
Totals	<u><u>\$ 35,263</u></u>	<u><u>\$ 204,276</u></u>

In accordance with Public Law 101-510, CBP is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2004, CBP canceled \$14 million from Fiscal Year 2000 annual appropriations, of which \$5.7 million was deobligated. For the year ended September 30, 2004, CBP paid \$16 thousand for obligations associated with appropriations

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that were canceled in prior years. Based on historical activity, CBP estimates obligations related to canceled appropriations that will be paid from future appropriations would not exceed \$1 million in any fiscal year.

CBP was authorized to issue various grants and cooperative agreements totaling \$6.6 million through September 30, 2004, of which \$6.6 million was obligated. As of September 30, 2004, a total of \$5.2 million has been disbursed. The remaining grant and cooperative agreement funds are available for expenditure through August 31, 2006.

CBP estimated future drawback claims and refunds relating to custodial revenue collections received during Fiscal Year 2004 and in prior years at \$915.4 million and \$818.8 million respectively.

There are various other trade issues resolved by other Federal Agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other agencies, CBP does not have sufficient information to estimate a contingent liability amount.

REQUIRED SUPPLEMENTARY INFORMATION

A. Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during Fiscal Years 2004 is as follows (in thousands):

	2004					
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	268,170	87,366	(11,214)	(242,445)	(16,343)	85,534
Taxes	534	8,565	(62)	(585)	(1,361)	7,091
Fees	384	1,103	(146)	(785)	(244)	312
Fines/ Penalties	1,318,693	953,542	(656,343)	(58)	(399,948)	1,215,886
Interest	62,227	88,597	(2,161)	(20,251)	(55,243)	73,169
Antidumping/ Countervailing						
Duty	--	342,860	(2,436)	90,377	(254,253)	176,548
Refunds & Drawback	--	22,378	(3,455)	(5,184)	(1,727)	12,012
Totals	<u>1,650,008</u>	<u>1,504,411</u>	<u>(675,817)</u>	<u>(178,931)</u>	<u>(729,119)</u>	<u>1,570,552</u>

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed. CBP regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the Port Director denies the protest and application for further review, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP favor.

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Additionally, importers and their sureties also have the option to petition for relief after receipt of CBP notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Consequently, CBP recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

B. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and is delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its useful life. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

	2004	
	Condition Assessment	Deferred Maintenance
Building and Structures		\$ --
Aircraft		--
Vehicles	Fair	8
Vessels		--
Totals		<u>\$ 8</u>

OTHER ACCOMPANYING INFORMATION

Entity Receivables

An aging of entity receivables as of September 30, 2004, is as follows (in thousands):

	Aged Period					
2004	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	Total
Reimbursable						
services	\$ 2,683	\$ 8,048	\$ 2,184	\$ 321	\$ 213	\$ 13,449
User fees	117,176	6,727	4,220	4,715	15,379	148,217
Gross receivables	119,859	14,775	6,404	5,036	15,592	161,666
Less uncollectible amounts	1,151	4,521	3,365	2,872	13,884	25,793
Net receivables	<u>\$ 118,708</u>	<u>\$ 10,254</u>	<u>\$ 3,039</u>	<u>\$ 2,164</u>	<u>\$ 1,708</u>	<u>\$ 135,873</u>

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Non-Entity Receivables

An analysis of the changes in accounts receivable during Fiscal Year 2004 is as follows (in thousands):

2004		Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Receivable Category	Balance October 1					
Duties	\$ 1,020,435	\$ 22,755,114	\$(22,628,269)	\$ (3,376)	\$(106,930)	\$ 1,036,974
Excise Taxes	73,075	2,439,635	(2,435,872)	(670)	(2,933)	73,235
Fees	70,370	1,924,354	(1,910,090)	(1,343)	(3,387)	79,904
Fines/penalties	694,293	1,599,975	(57,240)	(128,020)	(1,310,837)	798,171
Interest	80,983	84,418	(17,860)	(1,575)	(30,385)	115,581
Antidumping/ Countervailing Duty	--	289,034	(27,540)	(381)	8,314	269,427
Refunds/ drawback	36,317	35,320	(34,880)	--	(36,231)	526
Totals	1,975,473	<u>\$ 29,127,850</u>	<u>\$(27,111,751)</u>	<u>\$ (135,365)</u>	<u>\$(1,482,389)</u>	<u>2,373,818</u>
Less uncollectible amounts	827,230					1,088,121
Net receivables	<u>\$ 1,148,243</u>					<u>\$ 1,285,697</u>

An aging of non-entity Intra-governmental receivables as of September 30, 2004 is as follows (in thousands):

2004	Aged Period					Total
	<=90 days	91 days-1 year	1-2 years	2-3 years	3+ years	
Duties	\$ 919,761	\$ 6,643	\$ 50,167	\$ 11,628	\$ 48,775	\$ 1,036,974
Excise taxes	71,351	1,107	2	194	581	73,235
User fees	76,886	596	1,286	855	281	79,904
Fines/penalties	246,387	163,299	217,251	61,455	109,779	798,171
Interest	1,300	35,605	13,546	3,307	61,823	115,581
Antidumping/ Countervailing Duty	91,828	132,520	28,289	5,469	11,321	269,427
Refunds and drawback	--	356	82	27	61	526
Gross receivables	1,407,513	340,126	310,623	82,935	232,621	2,373,818
Less uncollectible amounts	234,306	291,205	273,235	70,166	219,209	1,088,121
Net receivables	<u>\$ 1,173,207</u>	<u>\$ 48,921</u>	<u>\$ 37,388</u>	<u>\$ 12,769</u>	<u>\$ 13,412</u>	<u>\$ 1,285,697</u>

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CBP Collections by Category
 (Dollars in thousands)

	2000	2001	2002	2003	2004
Duties					
Consumption entries	\$ 19,857,605	\$ 19,272,396	\$ 19,485,864	\$ 20,331,692	\$ 21,012,275
Warehouse withdrawals	115,097	116,214	132,078	116,803	115,512
Mail entries	5,976	5,355	4,238	3,961	3,175
Passenger baggage entries	21,470	13,430	7,609	4,381	4,551
Crew baggage entries	100	54	36	25	17
Military baggage entries	34	17	18	6	4
Informal entries	45,102	48,472	49,911	49,616	53,612
Vessel repair entries	16,067	14,337	12,494	12,213	36,033
Other duties	494,450	343,574	95,695	82,728	54,433
Total Duties	<u>20,555,901</u>	<u>19,813,849</u>	<u>19,787,943</u>	<u>20,601,425</u>	<u>21,279,612</u>
Miscellaneous					
Violations of CBP law	111,703	66,082	55,789	54,407	52,159
Testing, inspecting & grading	31	38	35	62	54
Miscellaneous taxes	70,419	71,629	71,653	41,186	17,391
USDA collections	68,219	67,580	70,036	74,520	77,410
Harbor maintenance fee	673,324	706,763	673,348	757,882	869,522
Fees	2,916	3,011	4,774	4,258	5,195
User fee account	1,277,505	1,264,211	1,233,347	1,322,756	1,464,138
Unclaimed funds	850	790	1,337	897	1,081
Recoveries	56	89	30	6	53
Interest	38,603	56,080	15,389	12,711	9,892
Other CBP receipts	6,983	9,218	7,694	5,199	8,663
Total Miscellaneous	<u>2,250,609</u>	<u>2,245,491</u>	<u>2,133,432</u>	<u>2,273,884</u>	<u>2,505,558</u>
Internal Revenue Taxes	<u>1,541,419</u>	<u>1,694,097</u>	<u>1,913,752</u>	<u>2,092,276</u>	<u>2,205,744</u>
Total Collections	<u>\$ 24,347,929</u>	<u>\$ 23,753,437</u>	<u>\$ 23,835,127</u>	<u>\$ 24,967,585</u>	<u>\$ 25,990,914</u>

Total Collections include both custodial, duty, tax, fee and interest collections, and entity user fee collections recorded by port locations during the period October through September, as follows:

Custodial collections	\$ 24,049,336	\$ 22,484,774	\$ 22,605,492	\$ 24,681,966	\$ 25,676,473
Entity collections	<u>298,593</u>	<u>1,268,663</u>	<u>1,229,635</u>	<u>285,619</u>	<u>314,441</u>
Total Collections	<u>\$ 24,347,929</u>	<u>\$ 23,753,437</u>	<u>\$ 23,835,127</u>	<u>\$ 24,967,585</u>	<u>\$ 25,990,914</u>

Customs and Border Protection
Notes to Financial Statements
 Unaudited

CBP Collections by Major Processing Port Locations

(Dollars in thousands)

	2000	2001	2002	2003	2004
Boston	\$ 511,237	\$ 511,361	\$ 453,907	\$ 426,545	\$ 440,158
Buffalo-Niagara Falls	164,036	163,327	150,806	166,428	181,876
Ogdensburg	86,102	86,700	87,991	87,237	102,490
Portland, Maine	43,509	48,808	45,706	49,879	54,311
Providence	39,541	35,928	35,909	60,692	67,787
St. Albans	34,022	27,319	29,001	34,473	41,129
Baltimore	494,200	486,035	491,299	558,733	548,892
Philadelphia	545,958	522,816	539,610	526,844	549,459
New York	462,477	506,854	368,786	293,227	285,432
Newark	3,226,830	3,304,465	3,271,144	3,558,418	3,675,783
JFK Airport	1,474,054	1,221,749	1,255,133	1,291,671	1,274,989
Charleston	629,969	638,621	693,832	807,133	906,318
Miami	1,063,756	842,181	773,030	819,933	844,143
San Juan	105,467	104,714	185,885	99,920	98,709
St. Thomas	11,883	12,448	23,266	10,429	11,949
Savannah	752,055	817,331	835,753	956,698	958,250
Tampa	403,311	394,045	388,254	416,743	390,533
Wilmington	310,507	282,688	265,276	263,549	272,646
Norfolk	443,377	417,217	474,699	553,719	563,558
NFC Indianapolis/Washington	461,158	731,334	632,622	654,492	761,791
Mobile	92,364	80,691	93,955	105,512	108,809
New Orleans	797,544	764,649	776,773	847,966	855,041
Dallas/Ft. Worth	286,031	286,927	291,823	311,226	335,763
El Paso	75,033	75,844	68,121	93,057	112,521
Houston	472,332	485,334	516,549	518,039	497,180
Laredo	351,374	330,949	303,162	301,332	307,842
Port Arthur	29,097	27,255	33,466	32,161	32,613
Nogales	86,925	97,602	84,809	97,051	92,216
Los Angeles	5,183,813	5,101,101	5,291,462	5,589,441	5,982,568
San Diego	230,064	211,547	210,054	226,881	230,158
Anchorage	107,240	94,434	88,657	85,086	101,446
Honolulu	54,610	45,378	37,541	41,255	45,898
Portland	328,474	350,316	353,457	336,487	341,904
San Francisco	867,415	714,645	684,473	707,208	774,722
Seattle	845,930	799,770	783,326	818,627	816,870
Chicago	1,340,274	1,245,045	1,266,939	1,261,818	1,299,606
Cleveland	984,020	996,841	1,015,719	1,001,462	1,009,197
Detroit	447,904	388,553	396,886	433,890	487,286
Duluth	1,398	7,366	3,283	5,689	1,933
Milwaukee	36,396	33,894	32,876	36,656	32,437
Minneapolis	99,008	105,582	109,366	113,752	121,149
Pembina	11,497	11,743	11,786	12,990	14,256
St. Louis	257,673	265,855	268,592	305,061	293,594
Great Falls	107,613	106,416	103,760	107,655	124,965
Total Collections	24,357,478	23,783,678	23,828,744	25,027,065	26,050,177
Net Financial Statement Adjustments (a)	(9,549)	(30,241)	6,383	(59,480)	(59,263)
Total Revenues Collected	\$ 24,347,929	\$ 23,753,437	\$ 23,835,127	\$ 24,967,585	\$ 25,990,914

(a) Total collections represent collections recorded by the port locations during the fiscal year. Net financial statement adjustments primarily represent adjustments for timing differences for collections received during the fiscal year but not recorded until the next fiscal year.

Acronyms

ABCI	Arizona Border Control Initiative	CSI	Container Security Initiative
ACE	Automated Commercial Environment	C-TPAT	Customs Trade Partnership Against Terrorism
ACSI	Americas-Counter Smuggling Initiative	CTRT	Counter-terrorism Response Training
AD/CV	Antidumping/Countervailing Duty	DFO	Director of Field Operations
AGOA	African Growth and Opportunity Act	DHS	Department of Homeland Security
AI	Agricultural Inspection	DOC	Department of Commerce
AMO	Air and Marine Operations	DOD	Department of Defense
APHIS	Agriculture and Plant Health Inspection Service	DRB	Discipline Review Board
APIS	Advance Passenger Information System	DSO	Drug Smuggling Organization
AT	Anti-Terrorism	DTRA	Defense Threat Reduction Agency
ATP	Air Transit Program	eCP	Electronic (e) Customs Partnership
ATS	Automated Targeting System	EEO	Equal Employment Opportunity
ATS-P	Automated Targeting System – Passenger	EFT	Electronic Funds Transfer
BASC	Business Anti-Smuggling Coalition	ERP	Enterprise Resource Program
BORSTAR	Border Patrol Search Trauma and Rescue Teams	EXBS	Export Control and Related Border Security
BORTAC	Border Patrol Tactical Unit	FAST	Free and Secure Trade Program
BPLP	Border Patrol Liaison Program	FBI	Federal Bureau of Investigation
BS&F	Border Security and Facilitation	FDA	Food and Drug Administration
BSI	Border Safety Initiative	FEGLI	Federal Employees' Group Life Insurance
BTA	Bio-Terrorism Act	FDA	Federal Drug Administration
BTS	Border and Transportation Security	FFMIA	Federal Financial Management Improvement Act
CAOS	Customs Automated Operations System	FITS	Firearms Inventory Tracking Systems
CASC	Customs Area Security Center	FMFIA	Federal Managers' Financial Integrity Act
CAWG	Civil Aviation Working Group	FPC	FAST Processing Center
CBP	Customs and Border Protection	FRN	Federal Register Notice
CBPMO	CBP Modernization Office	FSIS	Food Safety Inspection Service
CFO	Chief Financial Officer	FY	Fiscal Year
CIA	Central Intelligence Agency	GES	Global Enrollment System
CIP	Carrier Initiative Program	GIPP	Guide Identification Prosecution Program
CIS	Citizenship and Immigration Services	GoM	Government of Mexico
CITA	Committee for the Implementation of Textile Agreements	HQ	Headquarters
CM	Compliance Measurement	HRM	Human Resources Management
CMF	Criminal Master File	IAFIS	Integrated Automated Fingerprint Identification System
COA	Certificate of Authorization	IA/IP	Information Analysis and Infrastructure Protection
COATS	Computer Online Automated Testing System	IAP	Immigration Advisory Project
COBRA	Consolidated Omnibus Budget Reconciliation Act	IATA	International Air Transport Association
COMPEX	Compliance Measurement Examination	IBET	Integrated Border Enforcement Team
COPRA	Customs Officer Pay Reform Act	ICE	U.S. Immigration and Customs Enforcement
CR	Change Request	ICP	Informed Compliance Publications
CSC	Computer Sciences Corporation	IDENT	Automated Biometric Identification System
		IDSOs	Intelligence Driven Special Operations

ILEA	International Law Enforcement Academies	PDF	Policia De Fronteras
INA	Office of International Affairs	POE	Port of Entry
INL	International Narcotics and Law Enforcement Office	PRD	Personal Radiation Detectors
INS	Immigration and Naturalization Service	PRIDE	Portal Radiation Inspection, Detection & Evaluation
IPR	Intellectual Property Rights	PTI	Priority Trade Issues
IPRS	Intellectual Property Rights Search	QUICS	Quality and Uniformity Information Control System
IR	Interior Repatriation	RIID	Radiation Isotope Identifier Device
IRS	Internal Revenue Service	RPEP	Remote Ports of Entry Project
ISA	Importer Self-Assessment Program	RPM	Radiation Portal Monitor
ISI	Immigration Security Initiative	RVIS	Remote Video Inspection System
ISIS	Integrated Surveillance Information System	S&E	Salaries and Expenses
JCCB	Joint Changes Control Board	SAFE RB-S	Secured All around Flotation Equipped Response Boat – Small
LOP	Letters of Procedure	SAP	Systems, Applications, and Products
MOA	Memoranda of Agreement	SECI	Southeast European Cooperative Initiative
NAFTA	North American Free Trade Agreement	SENTRI	Secure Electronic Network for Traveler's Rapid Inspection
NATO	North Atlantic Treaty Organization	SEVIS	Student and Exchange Visit Information System
NB	Northern Border	SLA	Service Level Agreements
NCSD	National Commodity Specialist Division	STC	Strategic Trade Center
NFC	National Finance Center	SB	Southern Border
NII	Non-Intrusive Inspection	SWB	Southwest Border
NSEERS	National Security Entry Exit Registration System	TMO	Transition Management Office
NSA	National Security Agency	TSA	Transportation Security Administration
NTC	National Targeting Center	TSC	Terrorist Screening Center
OBP	Office of Border Patrol	TSN	Trade Support Network
OCA	Office of Congressional Affairs	TTIC	Terrorist Threat Integration Center
OCC	Office of Chief Counsel	UAV	Unmanned Aerial Vehicle
OAT	Office of Anti-Terrorism	U.S.	United States
OF	Office of Finance	U.S.C.	United States Code
OFO	Office of Field Operations	USCG	U.S. Coast Guard
OIA	Office of Internal Affairs	USDA	United States Department of Agriculture
OINT	Office of Intelligence	UTCP	Unified Tactical Communication Program
OIT	Office of Information and Technology	VACIS	Vehicle and Cargo Inspection System
OMB	Office of Management and Budget	VBT	Video-Based Testing
OPA	Office of Public Affairs	WCO	World Customs Organization
OPP	Office of Policy and Planning	WMD	Weapons of Mass Destruction
OR&R	Office of Regulations and Rulings	WTO	World Trade Organization
OST	Office of Strategic Trade		
OTD	Office of Training and Development		
OTR	Office of Trade Relations		
PAU	Passenger Analytical Unit		



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